Deutsche Wohnen

leading performance

FINANCIAL REPORT OF
THE ANNUAL REPORT 2013

LEADING PERFORMANCE.

With its convincing performance, Deutsche Wohnen has been making a strong impression on the markets for years now. Moreover, in the financial year 2013 we improved our key performance figures once again. We now possess more than 152,000 residential and commercial units with a total asset value of around EUR 9.0 billion. We have had a decisive impact on the property market in Germany as the most active major investor with a transaction volume of EUR 4 billion. 72 % of our total portfolio is now located in Berlin, the most dynamic growth market in Germany. With a market capitalisation of just under EUR 4 billion – 3.5 times more than at the end of 2011 – we are one of the largest listed property companies in Germany and Europe today. We are also setting standards with KATHARINENHOF®. With the acquisition of seven facilities in Berlin and Leipzig in the last two years we have increased the number of nursing places we provide to over 2,200.

LEADING FIGURES.

Residential units

150,000

Nursing places/apartments

2,200

Portfolio Berlin

72%

Market capitalisation in EUR bn

4.0

Transaction volume in EUR bn

4.0

Assets under management in EUR bn

9.0

GROUP KEY FIGURES

of the Deutsche Wohnen AG

Profit and loss statement		2013	2012
Earnings from Residential Property Management	EUR m	292.3	194.4
Earnings from Disposals	EUR m	23.0	19.9
Earnings from Nursing and Assisted Living	EUR m	13.2	9.9
Corporate expenses	EUR m	–52.9	–40.4
EBITDA	EUR m	252.9	196.5
EBT (adjusted)	EUR m	131.9	78.5
EBT (as reported)	EUR m	217.9	205.6
Group profit (after taxes)	EUR m	212.7	145.5
Group profit (after taxes)[1]	EUR per share	1.21	1.15[2]
FFO (without disposals)	EUR m	114.5	68.2
FFO (without disposals)[1]	EUR per share	0.65	0.54[2]
FFO (incl. disposals)	EUR m	137.5	88.1
FFO (incl. disposals)[1]	EUR per share	0.78	0.70[2]

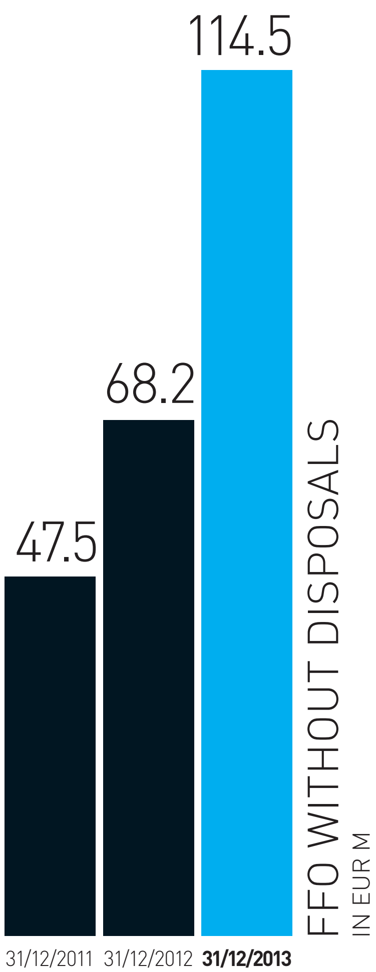
Balance sheet		31/12/2013	31/12/2012
Investment properties	EUR m	8,937.1	4,614.6
Current assets	EUR m	400.6	188.5
Equity	EUR m	3,944.3	1,609.7
Net financial liabilities	EUR m	5,208.4	2,678.0
Loan-to-Value Ratio (LTV)	in %	57.3	57.2
Total assets	EUR m	10,173.1	4,907.9

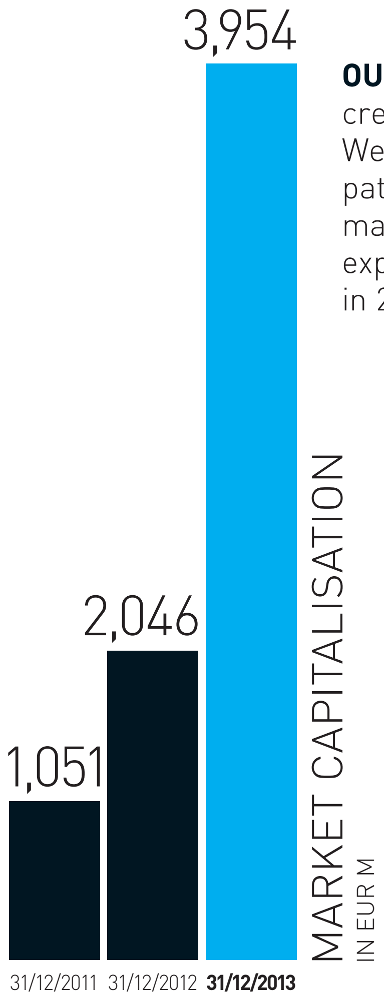
Share		31/12/2013	31/12/2012
Share price (closing price)	EUR per share	14.04	14.00
Number of shares	m	286.22	146.14
Market capitalisation	EUR bn	4.0	2.0

Net Asset Value (NAV)		31/12/2013	31/12/2012
EPRA NAV	EUR m	4,004.7	1,824.4
EPRA NAV	EUR per share	13.99[3]	12.48[4]

Fair values		31/12/2013	31/12/2012
Fair value of real estate property[5]	EUR m	8,881	4,320
Fair value per sqm residential and commercial area[5]	EUR per sqm	944	950

[1] Based on average number of around 175.27 million issued shares in 2013 and around 126.09 million in 2012
[2] In due consideration of the effects of the capital increase of June 2012 (so-called scrip adjustment of around 1.03)
[3] Based on about 286.22 million issued shares as at reporting date
[4] Based on about 146.14 million issued shares as at reporting date
[5] Only comprises residential and commercial buildings

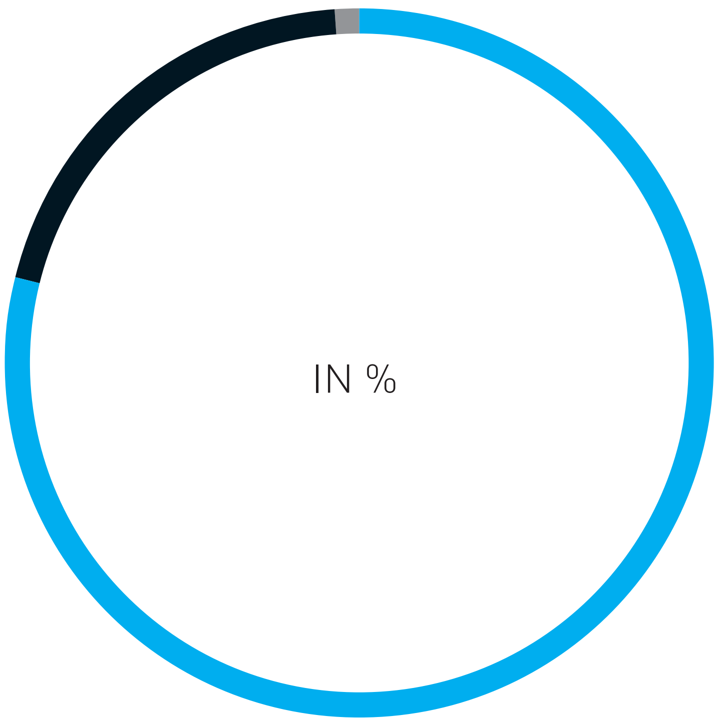




OUR FOCUS on quality and value-creating acquisitions is paying off. We are consequently following the path of profitable growth and have made the most significant step in expansion in our company history in 2013.

Growth in Core^{+} regions

Within our portfolio strategy our focus is on dynamic growth regions. We were able to increase our holdings in Core^{+} regions from 62 % to 79 %.



CORE^{+} 79

CORE 19

NON-CORE 2

leading performance

Letter to our shareholders

Dear Sir or Madam,
Dear Shareholders,

If we told you about Deutsche Wohnen having broken through to a new dimension at this point last year, this applies even more to the financial year 2013. Through our takeover of the Berlin GSW Immobilien AG at the end of the year we have once again acquired even greater size and visibility. This was the crowning achievement in the history of our growth to date and, at the same time, the largest acquisition in the property sector for years. Thereby we have further concentrated our real estate holdings and possess more than 152,000 residential and commercial units as well as around 2,200 care places and assisted living apartments with an asset value of around EUR 9.0 billion in total – located primarily in growth regions in Germany.

Today, Deutsche Wohnen is not only one of the leading real estate companies in Germany; but has also caught up with the top group in a European comparison. For this reason, the title of our Annual Report this year is "leading performance". In this report we explain in greater detail the most important factors in our success and the strategic steps we are taking.

Record results surpassed once again

In the financial year 2013 we succeeded once again in surpassing the record results of the preceding year. For example, the Group profit for the year was EUR 212.7 million, and so more than 46 % higher than in the previous year. We were able to increase our adjusted earnings before taxes by around 68 % to EUR 131.9 million. Thanks to acquisitions and operational improvements, Funds from Operations (FFO without disposals), which is an essential figure for us, also rose in comparison to the previous year by just under 68 % to EUR 114.5 million. EPRA NAV (undiluted), which reflects the intrinsic value of the company, rose to EUR 13.99 per share.

Our key operating figures reinforce this positive development. For example, we were able to increase earnings from Residential Property Management by 50 % to EUR 292.3 million. Despite the integration of new holdings and higher maintenance expenditure per sqm, the NOI margin of around 71 % was at the same level as in the previous year. In our Core+ regions we were able to achieve rental growth of 4.2 % on a like-for-like basis, with a vacancy rate of 1.2 % – our lowest rate so far. These figures show that we continue to benefit from the rising demand for housing in fast-growing German conurbations and metropolitan regions, where 79 % of our total holdings are located.

Success based on focused and consistent growth strategy

The acquisition of GSW was the highlight so far in Deutsche Wohnen's growth story. However, we had already commenced our clearly focussed expansion course in the years before. On the basis of a stable and sustainable business model we have generated both organic and external growth through strategic acquisitions, portfolio-enhancing disposals and targeted investments. In all of this we concentrate on German conurbations, for which particularly dynamic growth is forecast. In particular we are outstandingly positioned in the growth market of Berlin, where 72 % of our total holdings are located. With our efficient processes and structures we are setting standards in our sector in terms of both property management and energy provision.

Moreover, together with GSW we can profit from high synergy effects – following the completion of the integration process they will amount to around EUR 25 million a year – and, in so doing, further strengthen our position as a cost leader. Contributory factors in this process will be an even more efficient administration, the bundling of services, opportunistic disposals and economies of scale in procurement.

In the business segment Nursing and Assisted Living we are also setting standards with KATHARINENHOF®. According to the ratings of the Medical Service of the Health Insurance Industry, we are one of the best providers of nursing and care facilities in Germany. In this segment too we are pursuing the goal of strengthening existing core regions with acquisitions or by opening up new regions. With 2,200 care places and assisted living apartments we have positioned ourselves well in this future market. Moreover, we will continue to achieve targeted growth in future.

Capital market acknowledges our achievements

The Deutsche Wohnen share has once again benefited from these outstanding developments. In rather volatile market conditions it was able to rise in value once again, closing at the end of the year at EUR 14.04. The market capitalisation of Deutsche Wohnen, which is now at around EUR 4 billion, has risen by more than 3.5 times

From left to right: Andreas Segal, Michael Zahn, Lars Wittan

since the end of 2011. If the non-free float shareholdings are subtracted, this produces a free float market capitalisation of EUR 3.7 billion. In respect of both our market capitalisation and our share liquidity we are the leading German real estate stock corporation. After the reporting date of 31 December 2013, the Deutsche Wohnen share continued to perform well and rose to EUR 15.21 as at 25 March 2014.

The great trust in which Deutsche Wohnen is held by the capital market was also shown in November 2013 when our first convertible bond was successfully placed with institutional investors. This was one of the largest convertible bonds with – from the issuer's point of view – the best conditions on the European real estate market since the financial crisis.

Dear shareholders, we want you to continually participate in the success of the company by paying out a dividend. Because of our improved earnings power the planned dividend for 2013 will rise to EUR 57.4 million. For the 2014 dividend, which is payable in 2015, we plan to increase the pay-out ratio from 50 % to 60 % of recurring FFO (without disposals). Based on today's number of shares, this corresponds to an increase of around 24 % to EUR 0.42 per share. This means that you will be participating to an even greater extent in the positive development of Deutsche Wohnen.

Successful continuation of our growth story

Dear shareholders, we have achieved a lot. With our strong market position and increased size we can look to the future with optimism. We will continue unchanged on the course we have embarked on and will, at the same time, benefit from our financial strength and high level of know-how. In doing so we want to position ourselves permanently in the residential property sector as the market leader in terms of quality and also to be measured by standards of efficiency – in the European comparison as well.

Once again, our employees will play a critical role in all of this. Our successful course is only possible with their high commitment and dedication. For this reason, we take the opportunity at this point to express our thanks to them.

Following the acquisition of around 70,000 units in 2013, the takeover and integration of these portfolios are our primary objective in the financial year 2014. In all of this, the integration of GSW has the highest priority. For 2014 we anticipate an FFO (without disposals) of at least EUR 210 million, including the most recent acquisitions. Taking an 8 % minority stake in GSW into consideration, the FFO (without disposals) in 2014 is expected to be approximately EUR 203 million or EUR 0.71 per share.

Dear shareholders, we thank you for your support and will be pleased if you accompany us in continuing to write the success story of Deutsche Wohnen.

Frankfurt/Main and Berlin, March 2014

Michael Zahn	Andreas Segal	Lars Wittan
Chief Executive Officer	Member of the Management Board	Member of the Management Board

The share

Strong capital market performance with new all-time highs in the DAX and MDAX

In 2013 developments on the capital markets were once again characterised by the consistently expansive monetary and low interest rate policy of the central banks worldwide. In particular, the US Federal Reserve's adherence to its bond buying programme throughout the year, the long term prospect of low interests, and the fact that the ECB twice lowered its key interest rate to an all-time low provided the stock markets with considerable momentum over the course of the year. Both the economic recovery in the USA and the stabilisation of the Eurozone economies also had a positive effect on the capital markets. In contrast, the announcement by the US Federal Reserve in December 2013 of its intention to reduce its bond purchases in the future produced no significant reaction.

Thus, the DAX attained an all-time high of 9,589 points shortly before the end of 2013, closing the year at 9,552 points, approximately 25 % higher than at the same time one year earlier. The MDAX, where the Deutsche Wohnen share is listed, increased by 39 % in 2013, ending the year at 16,574 points. Just a few days earlier on 27 December 2013 the index peaked at 16,626 points, this being a new all-time high.

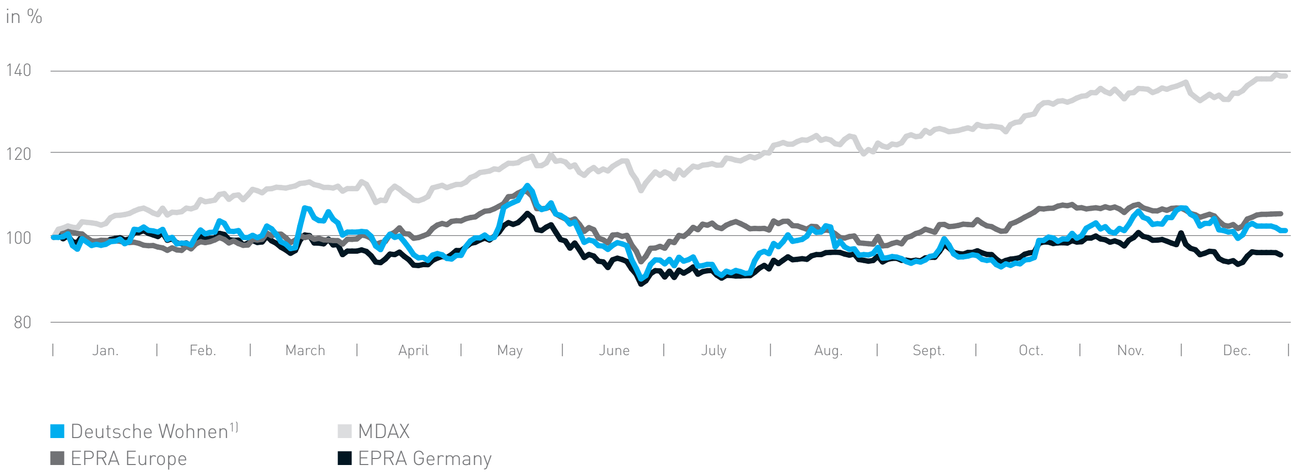
The real estate indices EPRA Europe and EPRA Germany were unable to keep pace with the strong performance of the DAX and the MDAX, lagging behind the German indices. However, they were able to recoup their disproportionately high losses during the last few weeks of the first half of 2013 at least to some extent over the further course of the year. The EPRA Europe index ended 2013 at approximately 1,578 points, which corresponds to an increase of approximately 6 % over the year, while the EPRA Germany index closed with a loss of 4.3 % at 539 points.

Deutsche Wohnen share outperforms EPRA Germany index

After peaking at EUR 15.54[1] on 21 May 2013 – which was also its highest price in the past four years – and then falling to a low of EUR 12.42 on 24 June 2013, the Deutsche Wohnen share ended 2013 with a closing price of EUR 14.04. On the whole, the performance of the share over the course of the year was largely in line with that of the benchmark index EPRA Germany, although the Deutsche Wohnen share did manage to gain some ground at the end of the year, outperforming the benchmark with a moderate increase in its price of 1.7 % as compared to the end of 2012[1].

Overall, demand for shares in real estate companies lagged behind that for shares in other industries, as was reflected in the performance of the German DAX and MDAX indices as compared to property indices such as EPRA Europe or EPRA Germany. Initial public offerings and capital increases by publicly listed real estate companies resulted in greater numbers of real estate shares on the capital market.

Share price performance in 2013 (indexed)



[1] Performance of the bearer share ISIN DE000A0HN5C6 adjusted for the dividend payment in 2013

[1] Adjusted for the dividend payment in 2013

Key figures – bearer share	2013		2012
	ISIN DE000A1X3R56 [1]	ISIN DE000A0HN5C6	ISIN DE000A0HN5C6
Number of shares outstanding in m	around 117.31	around 168,82	around 146,05
Closing price at the end of the year[2] in EUR	13.50	14.04	14.00 (13.81) [5]
Market capitalisation in EUR b	around 4.0		around 2.0
Highest share price during year[2] in EUR	14.50	15.76 (15.54) [5]	14.94 (14.73) [5]
Lowest share price during year[2] in EUR	13.21	12.42	9.60 (9.02) [6]
Average daily traded volume on Xetra[3]	n/a	519,289	332,402
Average daily traded volume on alt. trading platforms[4]	n/a	329,134	160,858

[1] "New" Deutsche Wohnen shares with dividend rights as at 1 January 2014
[2] Xetra closing price
[3] Traded shares
[4] Multilateral trading facility – MTFs
[5] Price in parenthesis adjusted for dividend payment in 2013
[6] Price in parenthesis adjusted for capital increase in 2012 and dividend payments in 2012 and 2013

Significant increase in market capitalisation and trading volume

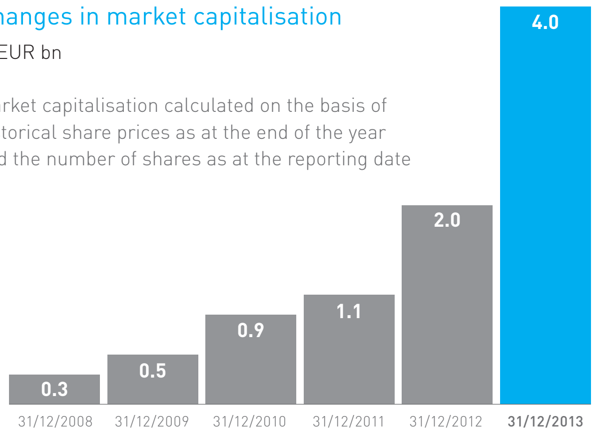
The market capitalisation of Deutsche Wohnen AG amounted to just under EUR 4 billion as at the end of 2013. Our company's market capitalisation has therefore increased to an impressive extent over a period of only five years. As a result of this development, Deutsche Wohnen AG is currently the largest publicly listed real estate company in Germany on the basis of its free float market capitalisation.

The development of the liquidity of our shares in 2013 is also pleasing. The average volume of the traded shares on the trading platform Xetra increased significantly by more than 50 % as compared to the previous year, which also showed a considerable increase. The trading volume also increased once again on the alternative trading platforms/Multilateral Trading Facilities.

Changes in market capitalisation

in EUR bn

Market capitalisation calculated on the basis of historical share prices as at the end of the year and the number of shares as at the reporting date

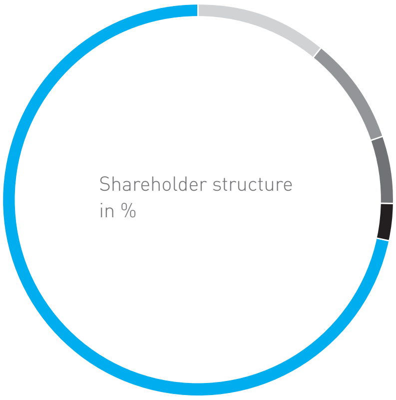


Stable shareholder structure of Deutsche Wohnen AG

Four national and international institutional investors currently hold around 28 % of the Deutsche Wohnen shares. The remaining approximately 72 % of the shares are held by both national and international institutional investors and by private shareholders whose shareholdings do not exceed the statutory reporting threshold of 3 %. According to the definition of the Deutsche Börse (German stock exchange), 94.52 % of our shares are currently in free float.[2]

Shareholders[1]

› 10 %	
Sun Life Financial Inc.[2]/MFS	11.05 %
› 5 %	
BlackRock, Inc.[2]	8.83 %
Norges Bank (Central Bank of Norway)[3]	5.48 %
› 3 %	
Stichting Pensioenfonds ABP[3]/ APG Algemene Pensioen Groep N.V.	3.13 %
4 institutional investors in total	**28.49 %**
Other	71.51 %
Freefloat according to Deutsche Börse	**94.52 %**



[1] Based on the latest WpHG notification received from above stated shareholders; as at 7/3/2014
[2] Attributed voting rights according to sec. 22, para. 1, sent. 1, no. 6 WpHG in conjunction with sec. 22, para. 1, sent. 2 WpHG
[3] Attributed voting rights according to sec. 22, para. 1, sent. 1, no. 1 WpHG

Analyst ratings predominantly positive

A total of 23 analysts are currently[3] following the development of the Deutsche Wohnen AG.

Nord/LB additionally took up coverage of the Deutsche Wohnen share in the financial year 2013.

The target prices of the 23 analysts actively covering the share currently[3] range between EUR 11.50 and EUR 16.80 per share. 20 analysts value the share with a target price of EUR 14.00 and above, of whom 17 even expect a target price of EUR 15.00 and above. The average target price of the 23 analysts actively covering the share is currently[3] approximately EUR 15.30.

The vast majority of the analysts rate the Deutsche Wohnen share positively.

Rating	Number
Buy/outperform/overweight/kaufen	11
Hold/neutral/halten	9
Sell/underweight	3

Status: 10/3/2014

Annual General Meeting 2013 approves all items on the agenda

The Annual General Meeting 2013 of Deutsche Wohnen AG was held in Frankfurt/Main on 28 May 2013. Around 65 % of the company's entire issued share capital was represented. The shareholders approved all the agenda items submitted.

It is worth pointing out that approximately 83 % of the votes validly cast were in favour of the creation of authorised capital 2013. Resolutions were adopted for the creation of new authorised capital in the amount of EUR 80,378,000 and for the suspension of the existing authorised capital 2012/II. Furthermore, Mr Uwe E. Flach, whose term of office as a member of the Supervisory Board was set to terminate upon the completion of the Annual General Meeting on 28 May 2013, was reelected to the Supervisory Board.

[2] Deutsche Börse, Stock Report February 2014
[3] Status: 10/3/2014

Extraordinary General Meeting 2013 paves the way for GSW takeover

An Extraordinary General Meeting held in Frankfurt/Main on 30 September 2013 decided in favour of increasing the issued share capital of the company in the context of the takeover bid made to the GSW shareholders in the form of a share exchange offer. Around 73 % of the company's entire issued share capital was represented at the meeting.

The shareholders of Deutsche Wohnen AG adopted the resolutions required in connection with the capital increase with a majority of around 99.5 % of the votes validly cast in each case. This clear voting on the part of the Deutsche Wohnen shareholders underscores the added value generated by the merger.

Multiple capital increases implemented in 2013

Accelerated bookbuilding in January 2013

On 15 January 2013, the Management Board of Deutsche Wohnen AG, with the consent of the Supervisory Board, decided on a capital increase against cash contributions in the amount of 10% of the issued capital at that time and with the exclusion of subscription rights of the shareholders. Partially utilising the new authorised capital approved at the Annual General Meeting held on 4 December 2012, the share capital of the company was increased by EUR 14,614,285 from EUR 146,142,858 to EUR 160,757,143 against cash contributions.

The new shares were placed with domestic and foreign institutional investors in the context of an accelerated bookbuilding procedure at a price of EUR 13.35 per new share and thus at a premium over the Adjusted NAV of 8.8 % per share. The new shares carried full dividend rights for the financial year 2012.

Deutsche Wohnen's gross proceeds from the capital increase amounted to approximately EUR 195.1 million. We used the net proceeds, in particular, to finance acquisitions in Berlin – approximately 5,200 residential units and nursing homes with a total of 425 beds – which were signed at the end of 2012, and for general corporate purposes.

Capital increase against contributions in kind in June 2013

Furthermore, by making partial use of the authorised capital 2012/II, the issued share capital of Deutsche Wohnen AG was increased by EUR 8,150,000 to EUR 168,907,143 against non-cash contributions of shares with the subscription rights of the shareholders excluded. The new shares were issued to the vendors of a real estate portfolio comprising approximately 6,900 residential units for the purpose of meeting the purchase price for the acquisition of that portfolio. The new 8.15 million bearer shares were admitted to trading on 16 September 2013 and on the following day included in the current listing in the Prime Standard segment – with its additional post-admission obligations – of the regulated stock market on the Frankfurt Stock Exchange. The new shares are fully entitled to dividends for the financial year 2013.

Capital increase against contributions in kind in November 2013 in fulfilment of the final condition for the execution of the takeover bid for GSW Immobilien AG

In the context of the takeover bid made to the GSW shareholders in the form of a share exchange offer, the share capital of the company was increased by EUR 117,309,588 from EUR 168,907,143 to EUR 286,216,731 by means of the issuance of 117,309,588 new no-par value bearer shares, each share representing a proportionate amount of the share capital of EUR 1.00. The authorised capital decided upon at the Annual General Meeting of 30 September 2013 was partially utilised for this purpose. The new shares will be fully entitled to dividends as of the financial year 2014. The new bearer shares were admitted to trading under a new ISIN (DE000A1X3R56) on 27 November 2013 and on the following day included in the current listing in the segment of the Regulated Market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. The two classes of bearer shares will be merged following the payment of the dividend for the financial year 2013.

Continued intensive pursuit of Investor Relations measures

Intensive communication with our shareholders, analysts and potential investors was once again prioritised on our agenda in the financial year 2013, our goal being to provide market participants with a comprehensive and transparent insight into our strategy and our prospects for future development. We actively sought dialogue with national and international investors, in particular through participation in conferences and road shows, which took place worldwide.

Accordingly, we attended a number of national and international banking conferences in 2013: the HSBC Real Estate and Construction Conference in Frankfurt/Main, Kempen & Co. seminars in New York and Amsterdam, the German Residential Property Event hosted by Commerzbank AG in London, the EPRA Annual Conference in Paris, the Bank of America Merrill Lynch Global Real Estate Conference in New York, the Berenberg/Goldman Sachs German Corporate Conference 2013, the UniCredit/Kepler German Investment Conference 2013 and the Baader Investment Conference 2013 in Munich and the UBS Global Real Estate Conference in London.

In addition, Deutsche Wohnen held road shows in London, New York, Boston, Amsterdam, Paris, Zurich, Geneva and Frankfurt/Main and intends to participate in banking conferences and road shows in 2014 as well. Further details can be found in our financial calendar on page 116, which is also regularly updated online on our Investor Relations homepage.

We hold telephone conferences along with the publication of our annual report and each of our interim reports, during which investors and analysts are given the opportunity to put their questions directly to the Management Board. The conferences are also broadcast live as webcasts, which are subsequently available for downloading on the Investor Relations page of our website. Here we publish company presentations and our current financial reports too, as well as an overview of all our current activities based on our financial calendar. Latest analyst recommendations, shareholder structures, ad hoc notifications and press releases, corporate news, voting rights disclosures, directors' dealings and all information relating to our Annual General Meeting can also be obtained from our website.

For Deutsche Wohnen, Investor Relations means timely and transparent reporting, an active and regular dialogue with our shareholders and potential investors, together with the expansion of our existing network of national and international contacts. Our Investor Relations department will continue to promote and expand these measures in the future.

Key share data	
Type of share	Ordinary share; divided into bearer and registered shares
Stock markets	Xetra, Frankfurt/Main, Stuttgart[1], Munich[1], Hamburg[1], Hanover[1], Dusseldorf[1], Berlin[1]
Admission segment	Prime Standard
Major indexes	MDAX, EPRA/NAREIT, GPR250
Number of issued shares (total)	286,216,731
Details of bearer shares	
Number of bearer shares	168,824,505
ISIN	DE000A0HN5C6
WKN	A0HN5C
Bloomberg ticker symbol	DWNI
Details of bearer shares with dividend rights as at 1 January 2014	
Number of bearer shares with dividend rights as at 1 January 2014	117,309,588
ISIN	DE000A1X3R56
WKN	A1X3R5
Bloomberg ticker symbol	DWNJ
Details of registered shares	
Number of registered shares	82,638
ISIN	DE0006283302
WKN	628330
Bloomberg ticker symbol	DWN

[1] Open market trading

Corporate Governance Report

Corporate Governance stands for a responsible and long-term value-driven management and control of companies. The corporate governance and corporate culture of the Deutsche Wohnen Group comply with statutory requirements and – with a few exceptions – the additional recommendations of the German Corporate Governance Code. The Management Board and Supervisory Board of Deutsche Wohnen AG feel obligated to pursue good Corporate Governance; all areas of business are orientated towards this purpose. Our focus is on values such as competence, transparency and sustainability.

Declaration of Compliance

The Management Board and Supervisory Board were also careful to meet the standards of the German Corporate Governance Code in 2013. In doing so, they took account of the amendments to the Code contained in the version as at 13 May 2013 and published in the German Federal Gazette (Bundesanzeiger) on 10 June 2013, and in December 2013, in accordance with section 161 of the German Stock Corporation Act (AktG), they submitted their declaration of compliance for the financial year 2013 with the recommendations of the Code and outlined in detail the position they held in the few instances of deviations from the Code. The declaration is available for inspection by shareholders and interested parties on our website at www.ir.deutsche-wohnen.com/websites/deuwo/English/8000/corporate-governance.html.

General management structure with three bodies

Deutsche Wohnen AG, registered in Frankfurt/Main, is subject to the provisions of the German stock corporation law and capital market legislation and the provisions of its articles of association. With its two bodies, the Management Board and the Supervisory Board, the company has a two-tier management and supervisory structure. Above, there is the Annual General Meeting at which the shareholders are involved in fundamental decisions concerning the company. Together, these three organs are obligated to act in the best interests of the shareholders and for the benefit of the company.

The Management Board works in the best interests of the company

The Management Board manages the company and conducts the enterprise's business under its own responsibility. In this task it is bound by the goal of sustainable value creation in the company's interests. The members of the Management Board are appointed by the Supervisory Board. The age limit for members of the Management Board has been set by the Supervisory Board at the legal retirement age. The selection of members of the Management Board is based on the knowledge, skills and professional experience required for the fulfilment of the tasks of the Management Board.

In the financial year 2013, the Management Board consisted of two members and, since the appointment of Mr Andreas Segal on 31 January 2014, of three members and has a Chairperson. The work of the Management Board is governed in detail by the by-laws, which, among other things, provide for a division of tasks according to functional aspects.

The Management Board develops the strategic direction of the company, agrees this with the Supervisory Board, and ensures its implementation. It also bears the responsibility for appropriate risk management and control within the company as well as regular, timely and comprehensive reporting to the Supervisory Board. The approval of the Supervisory Board is intended for certain transactions and activities of the Management Board.

The members of the Management Board must immediately disclose any conflict of interest to the Supervisory Board and their colleagues on the Management Board. Significant business transactions between members of the Management Board, as well as parties closely related to them, and the company require the approval of the Supervisory Board. Equally, the acquisition of secondary employment outside the company requires such approval, too.

D&O group insurance policies have been concluded for the members of the Management Board and the Supervisory Board. Since 1 July 2010, these include a deductible that meets the requirements of section 93, paragraph 2 of the German Stock Corporation Act (AktG).

The Supervisory Board advises and monitors the Management Board

The Supervisory Board consists of six members. It is not subject to any employee participation requirements. All members are elected by the Annual General Meeting as representatives of the shareholders. Their term of office is generally five years in accordance with statutory provisions and the articles of association. The selection of members of the Supervisory Board is based, in particular, on the knowledge, skills and professional experience that are required for the fulfilment of their tasks. Only persons who at the time of appointment have not yet completed their 73rd year of life should be proposed for election as a member of the Supervisory Board.

The Supervisory Board advises and monitors the Management Board on its management of the company on a regular basis within the framework established by law, the articles of association and the by-laws. It works closely with the Management Board for the benefit of the company and is involved in decisions of fundamental importance to the company.

The Supervisory Board has by-laws; its work takes place both in plenary sessions and in committees. The work of the committees is intended to increase the efficiency of the work of the Supervisory Board. The committee chairperson reports regularly to the Supervisory Board on the work of their committee. Currently there are four committees:

- The Executive Committee is responsible for liaising with the Management Board and providing ongoing advice. It also prepares the meetings of the Supervisory Board, insofar as this is appropriate with regard to the scope and importance of items to be discussed. In accordance with the resolutions of the full Supervisory Board the Executive Committee is responsible for the conclusion and the content of the contracts for members of the Management Board. It is also responsible for giving advice and – insofar as this is permitted – making decisions about urgent issues.

- The Nomination Committee proposes suitable candidates to the Supervisory Board for it to recommend to the Annual General Meeting.

- The Audit Committee is responsible for the preliminary examination of the documentation for the annual financial statements and the consolidated financial statement, the preparation of the adoption or approval of these reports and the preparation of the Management Board's proposal on the utilisation of the profits by the Management Board. The committee discusses the principles of compliance, risk assessment, risk management and the adequacy and effectiveness of the internal control system with the Management Board. The responsibilities of the Audit Committee also include the preparation of the appointment of the auditors by the Annual General Meeting, which among other things includes an examination of the auditor's required independence, the subsequent appointment of the auditing contract and the determination of the audit priorities. The members of the Audit Committee have expertise in accounting and auditing regulations and the composition of the committee meets all stipulations for independence within the meaning of the EU recommendation on the role of Supervisory Board members (OJ EC 2005 No. L 52, 25/02/2005, p.1) and of the recommendation of the German Corporate Governance Code.

- The Acquisition Committee prepares the decisions of the Supervisory Board on corporate and/or portfolio acquisitions.

Important decisions are made at the Annual General Meeting

In line with the opportunities provided by the articles of association, the shareholders exercise their rights at the Annual General Meeting and exercise their voting rights. Each share carries one vote.

The Annual General Meeting is held annually during the first eight months of the financial year. The agenda of the Annual General Meeting and the reports and documents required for the Annual General Meeting are published on the website of Deutsche Wohnen AG.

Important resolutions are passed at the General Meetings. These include those relating to the appropriation of profits, formal approval of the actions of the Management Board and the Supervisory Board, the selection of members of the Supervisory Board and the auditors, amendments to the articles of association and measures which affect the capital structure of the company. The General Meeting provides a good opportunity to the Management Board and Supervisory Board to communicate directly with shareholders and to discuss and coordinate with them about the further development of the company.

In order to make it easier to personally exercise their rights, Deutsche Wohnen AG provides its shareholders with a proxy who is bound by the instructions given to him by the shareholders and who can also be reached during the General Meeting. It is explained in the invitation to the General Meeting how instructions may be given in advance of the General Meeting. In addition, shareholders are at liberty to be represented at the General Meeting by a proxy of their choice.

Remuneration of the Management Board

The remuneration system of the Management Board is the subject of regular consultations, review and redesign at the plenary sessions of the Supervisory Board.

The Management Board contracts of Deutsche Wohnen AG contain fixed and variable components. The variable component for all members of the Management Board is adjusted to the requirements of section 87, paragraph 1 sentence 3 of the German Stock Corporation Act (AktG). It is tied to the achievement of the company's economic goals and is primarily based on multi-year assessment criteria. The variable remuneration may only be claimed if there has been a corresponding positive development in the business. In this way, the compensation structure is aligned to sustainable business development and the incentive and risk effects of the variable remuneration will continue to be optimised.

The detailed remuneration report of Deutsche Wohnen AG for the financial year 2013 can be found in the Management Report on pages 61 to 63 and on the company's website at www.deutsche-wohnen.com/websites/deuwo/English/8460/report-on-compensation.html.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board has been established by the General Meeting in section 6, paragraph 6 of the articles of association. Accordingly, the members of the Supervisory Board receive a fixed annual remuneration of EUR 30,000. The Chairman of the Supervisory Board receives double the standard remuneration; the Deputy Chairman receives one and a half times the standard remuneration. Each member of the Supervisory Board additionally receives lump sum remuneration in the amount of EUR 5,000 per financial year in return for his or her membership of the Supervisory Board's Audit Committee. Furthermore, each member of the Executive Committee and the Acquisition Committee receives an attendance fee in the amount of EUR 1,000 for each committee meeting personally attended by such member. Cash expenses are reimbursed. In addition, the company can, at its expense, include the members of the Supervisory Board in a D&O group insurance for executive bodies and managers, and has done so. A deductible payable by the members of the Supervisory Board was agreed for this in accordance with the requirements of section 93, paragraph 2 of the German Stock Corporation Act (AktG).

No performance-based remuneration for members of the Supervisory Board is paid. The remuneration report contains disclosure of the remuneration of the individual members of the Supervisory Board.

Directors' Dealings and shareholdings subject to mandatory disclosure

The members of the Management Board and the Supervisory Board of Deutsche Wohnen AG and their closely related parties are obligated in accordance with section 15a of the German Securities Trading Act (WpHG) to disclose without delay transactions in shares of Deutsche Wohnen AG or related financial instruments. The company will publish these transactions immediately after they have been reported to it. In the financial year 2013, the following transactions of this nature have been reported to Deutsche Wohnen AG: the sale of 2,500 shares by the Chairman of the Supervisory Board, Uwe E. Flach.

As at 31 December 2013, the Supervisory Board member Uwe E. Flach held 12,500 shares and his wife 10,000 shares in Deutsche Wohnen AG respectively. As at that date, the wife of the Deputy Chairman of the Supervisory Board, Dr Andreas Kretschmer, held 4,705 shares, and the Supervisory Board member Dr h.c. Wolfgang Clement and his wife together held 1,000 shares. The other members of the Supervisory Board and Management Board held no shares in Deutsche Wohnen AG as at 31 December 2013.

Thus, the total holdings of the aforementioned groups of individuals of shares of Deutsche Wohnen AG as at 31 December 2013 amounted to less than 0.01 % of the approximately 286.2 million issued shares by the company.

Compliance as an important management task

Deutsche Wohnen AG has appointed a Compliance Officer in order to ensure compliance with the standards of conduct and norms prescribed by the German Corporate Governance Code and the relevant statutory provisions. The Compliance Officer manages, among other things, the company's list of insiders and informs management, employees and business partners about the relevant legal framework and the consequences of violations of insider regulations.

Adequate opportunity and risk management

Deutsche Wohnen AG considers it to be very important to deal responsibly with opportunities and risks. This is ensured by a comprehensive opportunity and risk management system, which identifies and monitors the major opportunities and risks. This system is continuously being developed and adapted to changing conditions.

Detailed information is available in the Management Report: The risk management system of Deutsche Wohnen AG is presented in the risk report on pages 56 to 59, corporate strategic opportunities are described in the Management Report on page 60 and the information on the consolidated accounts can be found in the notes on pages 72 to 83.

Committed to transparency

As part of ongoing Investor Relations activities all events that are important to the shareholders, investors and analysts are published at the beginning of the year for the duration of each financial year in the financial calendar. The financial calendar, which is updated regularly, can also be viewed on the company's website at www.ir.deutsche-wohnen.com/websites/deuwo/English/7000/financial-calendar.html.

The company informs shareholders, analysts and journalists according to uniform criteria. The information is transparent and consistent for all capital market participants. Ad hoc statements and press releases, as well as presentations of press and analysts conferences and roadshows are immediately available on our website.

Insider information (ad hoc publicity), voting rights notifications and directors' dealings are disclosed by Deutsche Wohnen AG without delay in accordance with statutory provisions.

Accounting

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was reselected as the auditor at the Annual General Meeting 2013. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has provided an advance statement that no business, financial, personal or other relationships exist between the auditor, its executive bodies and audit leaders on the one hand, and the company or members of its executive bodies on the other, which could give rise to doubts as to its independence.

Deutsche Wohnen AG is committed to abide by the publication deadlines prescribed by the German Corporate Governance Code of 90 days after the end of the financial year for the consolidated financial statement and 45 days after the end of the reporting period for interim reports. Although these deadlines were also met in the financial year 2013, due to the time needed to carefully prepare financial statements and company reports, no binding commitment can yet be given that these publication deadlines will be met.

Further information

Further information about the activities of the Supervisory Board and its committees and its cooperation with the Management Board can be found in the report of the Supervisory Board.

Frankfurt/Main, March 2014

Supervisory Board Management Board

Report of the Supervisory Board

Dear Shareholders,

Deutsche Wohnen AG has had a very successful and eventful financial year in 2013, with its successful takeover offer for GSW Immobilien AG representing a particular milestone. The portfolio has been expanded significantly through acquisitions with the focus remaining clearly on conurbations, the profitability and returns have been increased, and the equity capital basis has been strengthened through the capital increases against cash contributions and contributions in kind in January, June and November 2013.

Trusting cooperation with the Management Board

In the financial year 2013, the Supervisory Board has taken great care in its exercising of the duties it is obliged to perform under law, the articles of association, the German Corporate Governance Code and the by-laws. It has regularly advised the Management Board on the management of the company and overseen its activities. In addition, it was directly and promptly included in all decisions of fundamental importance to the company.

The Management Board informed the Supervisory Board regularly, promptly and fully, verbally and in writing, on the business policy, corporate planning and strategy, the company's situation, including the opportunities and risks, the state of business and risk management. Discrepancies between actual and planned development were explained in full. The Management Board agreed major business transactions with the Supervisory Board.

The Chairman of the Supervisory Board and other members of the Supervisory Board were in regular contact with the Management Board and discussed important issues also outside of the meetings of the Supervisory Board and its committees. These concerned, for example, the strategic direction of the company, performance and risk management.

Meetings of the Supervisory Board

In the financial year 2013, the Supervisory Board discussed the current performance, important individual transactions and measures requiring the approval of the Management Board in 18 meetings of the Supervisory Board. Nine of the Supervisory Board meetings were held by way of telephone conference. At each of the meetings, the Supervisory Board gave its approval, where necessary, and always after careful consideration and extensive discussion. Three resolutions were also passed by way of the written resolution procedure based on comprehensive informational materials and a previous discussion in plenary. At three meetings during the reporting year, there was a member of the Supervisory Board in each case who was unable to be in attendance. Apart from this, all of the members of the Supervisory Board were always present.

The focus of the Supervisory Board's activities in the year under review were the business planning and performance of Deutsche Wohnen AG, the growth strategy and acquisitions, in particular the takeover of GSW Immobilien AG, and the capital measures of the company. They were regularly advised on the performance in the Residential Property Management, Disposals, Nursing and Assisted Living segments, as well as the financial and liquidity position of the Group. The Supervisory Board's activities were also focussed on the review of and provision of advice in respect of the internal control and risk management systems of the Deutsche Wohnen Group.

At the meeting of 11 January 2013, the Supervisory Board dealt in particular with the adoption of the 2013 Business Plan, a possible capital measure in 2013, the selection of the auditor and the evaluation of the efficiency of the Supervisory Board.

At the meeting of 20 March 2013, the Supervisory Board dealt mainly with the report from the Audit Committee, the 2012 annual financial statements and matters relating to the Management Board and Supervisory Board, in particular the determination of the Management Board bonuses for the financial year 2012. Representatives of the auditing company were present to provide advice on the 2012 annual financial statements and explained items and approaches in the financial statements of the company and Group. Further core issues comprised the adoption of a resolution in respect of the agenda for the Ordinary Annual General Meeting, the adoption of report of the Supervisory Board, the Corporate Governance Report, the company's risk management and the handling of acquisition projects and interests in joint ventures.

At the meeting of 25 April 2013 (telephone conference), the Supervisory Board primarily discussed the acquisition of the "Larry" portfolios adopted a resolution granting consent to the acquisition and the related partial utilisation of the authorised capital 2012/II against contributions in kind.

The subjects of the meeting of 6 May 2013 were in particular the performance in the first quarter of 2013, the strategy in the Nursing and Assisted Living segment, acquisitions and the status of the preparations for the Annual General Meeting.

The core subject matter of the meeting of 28 May 2013 related in particular to the participation in a joint venture with the GETEC Group, as well as the election of the Chairman of the Supervisory Board and the appointment of the members of the committees.

The meeting of 5 August 2013 served mainly for the Management Board to explain the current performance based on the 2013 half-year report and also as a forum for the discussion of acquisition projects.

On 18 August 2013 (telephone conference), the Supervisory Board discussed and reviewed the envisaged steps and aspects relating to a possible voluntary public takeover offer with respect to GSW Immobilien AG.

At the meeting of 19 August 2013 (telephone conference), the Management Board reported on the current status of the preparations for the voluntary public takeover offer with respect to GSW Immobilien AG under consideration.

On 20 August 2013, the Supervisory Board (telephone conference) adopted in particular resolutions in favour of the submission of a share exchange offer to the shareholders of GSW Immobilien AG in utilisation of the authorised capital 2013 and the granting of approval for the capital increase.

The focal point of the meeting of 30 August 2013 (telephone conference) was the further course of action to be taken following the submission of the exchange offer to the shareholders of GSW Immobilien AG.

At the meeting of 3 September 2013 (telephone conference), the voluntary public takeover offer was also once more discussed in detail, also with the financial advisers on the basis of the latter's fairness opinions.

At the meeting of 19 September 2013 (telephone conference), the Supervisory Board conferred primarily with representatives of the financial advisers of the Supervisory Board, Rothschild GmbH, on the aspects of the voluntary public takeover offer.

On 30 September 2013, the members of the Supervisory Board dealt in particular with the preparatory and follow-up work for the Extraordinary General Meeting and also with acquisition-related matters.

The core content of the meeting on 14 October 2013 (telephone conference) was the granting of approval for the conclusion of a business combination agreement with GSW Immobilien AG.

At the meeting of 28 October 2013 (telephone conference), the Supervisory Board discussed the current status and the terms of the voluntary public takeover offer.

In its meeting of 4 November 2013, the Supervisory Board dealt mainly with the performance of the company on the basis of the third quarter report 2013 and the current acquisition projects. In the context of deliberations as to the strategy for the Nursing and Assisted Living segment and the corresponding adoption of resolutions, one of the members of the Supervisory Board abstained from casting his vote as a precautionary measure on grounds of a possible conflict of interests. In addition, approval was granted for the participation in a joint venture in the area of management of owner-occupied residential units and matters relating to the Management Board were discussed.

At the meeting of 12 November 2013 (telephone conference), the members of the Supervisory Board essentially approved the issuance of a convertible bond, and also the acquisition of convertible bonds of GSW Immobilien AG. In addition, the Supervisory Board dealt with matters relating to the Management Board, without the participation of the latter.

At the meeting of 19 December 2013, the Supervisory Board dealt in particular with the current status of the takeover and planned integration of GSW Immobilien AG, reports from the committees and the German Corporate Governance Code, and also adopted the declaration of conformity to be issued jointly with the Management Board.

The resolutions of the Supervisory Board passed by way of written resolution concerned the granting of approval for an amendment to the Articles of Association as the result of a capital measure (12 June), the acquisition of a senior citizens' facility (9 July) and the granting of approval for a joint venture (15 October). Each of these matters had already been discussed in detail at previous meetings.

Efficient work in four committees of the Supervisory Board

In order to efficiently perform its duties, the Supervisory Board has formed committees and continuously evaluated their needs and activities in the year under review.

Specifically, there existed the following four committees in the year under review:

- The Executive Committee,
- The Nomination Committee,
- The Audit Committee,
- The Acquisition Committee.

Their duties are represented in detail in the Corporate Governance Report on page 10.

In principle, the resolutions of the Supervisory Board and the topics to be discussed at the Supervisory Board plenary are prepared in the committees. Where permitted by law, each committee has been transferred decision-making powers in individual cases through the articles of association or through resolutions of the Supervisory Board. The Chairmen of the committees regularly and fully reported on the contents and results of committee meetings to the meetings of the Supervisory Board.

In the reporting year, the Executive Committee met on 15 and 16 January, 12 March, as well as 7 and 19 November. The subjects of the meetings were, in particular, the discussion and adoption of resolutions in connection with matters relating to the Management Board (remuneration issues, the extension of the term of office of Mr Lars Wittan) and also capital measures.

In the reporting year, the Nomination Committee met for one meeting held on 20 March to prepare a proposal for the appointment of a candidate for election to the Supervisory Board and to recommend these nominations for the Annual General Meeting to the Supervisory Board plenary.

The Audit Committee met on five occasions during the year under review, where it dealt with the relevant items of the Supervisory Board's work. These included in particular the preliminary examination of the annual financial statements, the consolidated financial statement and interim reports of Deutsche Wohnen AG and a discussion of the risk management system. It spoke with the Supervisory Board about a recommendation for the appointment of the auditing company for the financial year 2013, having carried out an in-depth selection process, collected a declaration of independence from this party, and monitored its activities. The members of the Audit Committee have expertise and experience in the application of accounting principles and internal control procedures. The committee Chairman, Dr Andreas Kretschmer, meets all the stipulations of Section 100 para. 5 of the German Stock Corporation Act (AktG).

The Acquisition Committee convened for meetings held on 12 March, 9 and 16 August, as well as 25 November, the subjects of which were the discussion and adoption of resolutions, in particular as regards possible acquisitions and the capital increase against contributions in kind.

Corporate Governance Standards further developed

The Supervisory Board has continuously observed and discussed the further development of the company's own Corporate Governance Standards. Comprehensive information on corporate governance in the company, including the structure and amount of remuneration paid to the Supervisory Board and Management Board can be found on pages 9 to 13 in this report.

The Management Board and Supervisory Board have discussed the requirements of the version of the German Corporate Governance Code applicable for the year under review and the implementation of these requirements. They adopted their updated joint declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) in December 2013 and have made it permanently accessible to the public on the company website. The declaration of compliance can be viewed at: www.ir.deutsche-wohnen.com/websites/deuwo/English/8300/declaration-of-compliance.html.

Annual and consolidated financial statements discussed in detail

The annual financial statements of Deutsche Wohnen of 31 December 2013 and the consolidated financial statements along with the Management Reports of the company and the Group that were prepared by the Management Board were examined by the auditing company that was appointed by the Annual General Meeting of 28 May 2013 and commissioned by the Supervisory Board, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, and provided with the unqualified audit opinion.

The annual financial statements of Deutsche Wohnen AG and the consolidated financial statements, the reports on the situation of Deutsche Wohnen AG and the Group and the Audit Reports were made available to all members of the Supervisory Board immediately following their preparation. The auditing company took part in the meeting of the Audit Committee held on 20 March 2014, for the purposes of preparing for the meeting of the Supervisory Board for the review of the accounts. It reported on the substantial results of its audit and provided additional information. The results of the audit of the company's annual financial statements, the consolidated financial statements and the Management Reports of the company and the Group were agreed by the Audit Committee following extensive discussion.

The Chairman of the Audit Committee fully reported to the Supervisory Board at its meeting on 20 March 2014 on the Annual Financial Statements and the audit. In addition, the auditing company explained the main findings of its audit and was available to provide information and answers to further questions for the Supervisory Board. The Supervisory Board has carefully examined the annual financial Statements, the Management Report, the consolidated financial statement, the proposal for the utilisation of net profit and Audit Reports. There have been no objections. The Supervisory Board then subsequently approved the recommendation of the Audit Committee in accordance with the annual financial statements and consolidated financial statement produced by the Management Board on 31 December 2013. The annual financial statements are thereby adopted.

The adopted annual financial statements indicate a net profit. The Supervisory Board endorses the Management Board's proposal regarding the utilisation of net profits. The agenda of the Annual General Meeting shall therefore include the adoption of a resolution on the distribution of a dividend in the amount of EUR 0.34 for each share entitled to the dividend.

Changes to the Supervisory Board and Management Board

There were no changes to the members of the Supervisory Board. Mr Uwe E. Flach, whose term of office ended upon the conclusion of the Ordinary Annual General Meeting on 28 May 2013, was reappointed a member of the Supervisory Board by the Annual General Meeting on 28 May 2013.

Mr Andreas Segal was appointed as member of the Management Board of the company with effect as at 31 January 2014 and for a term of office until 31 December 2015.

The Supervisory Board wishes to express its thanks to the members of the Management Board, as well as the employees of all the subsidiaries of the Deutsche Wohnen Group, for their work in the year under review.

Frankfurt/Main, March 2014

On behalf of the Supervisory Board

Uwe E. Flach

Composition of the Management Board and the Supervisory Board

Management Board

as at March 2014

Michael Zahn
Chief Executive Officer

Andreas Segal
Member of the Management Board

Lars Wittan
Member of the Management Board

Supervisory Board

as at March 2014

Uwe E. Flach
Chairman, Frankfurt/Main

Dr. rer. pol. Andreas Kretschmer
Deputy Chairman, Dusseldorf

Dr. h.c. Wolfgang Clement
Bonn

Matthias Hünlein
Oberursel

Dr. Michael Leinwand
Bad Honnef

Dr. Florian Stetter
Erding

GROUP MANAGEMENT REPORT

Fundamentals of the Group

Business model of the Group

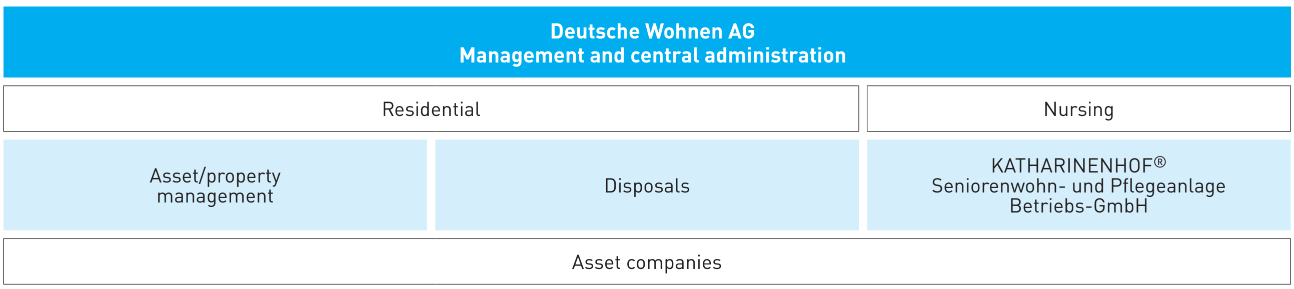
Deutsche Wohnen AG together with its subsidiaries (hereinafter referred to as "Deutsche Wohnen" or "Group") is currently one of the largest publicly listed real estate companies in Europe measured by market capitalisation. The company is listed on the MDAX stock index of the German stock exchange. Its real estate holdings comprise about 152,400 residential and commercial units as well as nursing care facilities with about 2,200 nursing places and apartments, with a total fair value of approximately EUR 9.0 billion. In accordance with our business strategy the focus is on residential and nursing properties in fast-growing conurbations and metropolitan areas of Germany. Fundamental economic growth, population influx and demographic development within German metropolitan areas provide a sound basis for the achievement of strong and stable cash flows from letting and leasing, and for the utilisation of opportunities for the creation of value.

An organisational distinction is made between management and asset companies. The management companies are allocated to the respective segments, with Deutsche Wohnen AG assuming a traditional holding company function – comprising the areas of Portfolio Management, Corporate Finance, Finance, Human Resources, Investor Relations, Corporate Communication and Legal/Compliance.

Asset/property management

The management of our holdings is largely undertaken by subsidiaries of Deutsche Wohnen AG – until 31 December 2013 this was the responsibility of Deutsche Wohnen Management GmbH. Deutsche Wohnen Management GmbH (DWM), Deutsche Wohnen Immobilien Management GmbH (DWI) and Deutsche Wohnen Construction and Facilities GmbH (DWCF) assuming this function as at 1 January 2014. All activities relating to the management and administration of residential property, the management of rental contracts and tenant support are concentrated within these subsidiaries. By continuously developing our portfolio, in recent years we have been able to make use of any potential for rent increases and to keep the vacancy rate at a very low level. The cooperation with qualified system providers enables us to manage our residential properties with an above-average level of efficiency.

In the year under review, we entered into a strategic cooperation with the utility company GETEC AG, Magdeburg: the G+D Gesellschaft für Energiemanagement mbH, Magdeburg (G+D), with a view to jointly restructuring the energy-related management of our portfolio and thus further improving the energy efficiency of our properties. We intend to create individual concepts for each of our holdings on the basis of the outcome of the analysis of the energy supply structures currently in place in our holdings, including the KATHARINENHOF® facilities. Particular emphasis is placed on the decentralised generation of electricity by means of combined heat and power and an efficient heat supply. We have already been able to realise economies of scale through our connection with G+D – as central platform for the procurement of gas – and thus counteract rising energy costs, an arrangement which is of direct benefit to our tenants.



Disposals

The disposal of residential units and portfolios is managed by Deutsche Wohnen Corporate Real Estate GmbH. We continuously release capital, especially through the disposal of residential units in our strategic core and growth regions with considerable margins, and thereby strengthen our internal financing capacity. Opportunistic disposals of properties in our Core+ and Core regions, in the context of sales to institutional investors, are also possible in the current positive market environment.

GSW Immobilien AG, which was acquired in the financial year, is to be integrated into our existing structures.

KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH

In the business segment Nursing we manage and market retirement and nursing homes for senior citizens, most of which are owned by Deutsche Wohnen under the brand KATHARINENHOF®. These facilities provide full in-patient care with the aim of enabling the residents to maintain an active lifestyle and independence to the greatest possible degree. As part of Assisted Living, we also provide a comprehensive range of services tailored to the needs of senior citizens.

Group legal structure

Registered capital and shares

The registered capital of Deutsche Wohnen AG amounted to around EUR 286.22 million as at 31 December 2013, and is divided into around 286.22 million non-par value shares with a notional share of the registered capital of EUR 1.00 per share. As at 31 December 2013, around 99.97 % of the company's shares were bearer shares; the remaining approximately 0.03 % were registered shares.

Of the bearer shares are 117,309,588 (ISIN: DE000A1X3R56) entitled to dividend rights only from the financial years starting 1 January 2014. Apart from that all shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and determines the basis for the division of company profit amongst shareholders. The rights and obligations of shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a ff., 118 ff. and 186 AktG. There are no shares with special rights that grant powers of control.

The Management Board of Deutsche Wohnen AG is not aware of any restrictions with regard to voting rights or transfer of shares.

In the event of capital increases, the new shares are issued as bearer shares.

By resolution of the Annual General Meeting dated 28 May 2013, which was entered into the commercial register on 9 July 2013, the Management Board has been authorised to increase the company's registered capital, with the consent of the Supervisory Board, by up to around EUR 80.38 million once or several times in the period until 27 May 2018, by the issuance of up to around 80.38 million new ordinary bearer shares against cash contributions and/or contributions in kind (authorised capital 2013/I). The shareholders must in principle be granted subscription rights within the scope of the authorised capital. However, according to the detailed provisions of the articles of association, the Management Board is authorised in certain cases to exclude the subscription rights of shareholders with the approval of the Supervisory Board. The remainder of the 2012/II authorised capital was cancelled at the same time as the authorised capital 2013/I was recorded.

The authorised capital 2012/II has been utilised until its cancellation as follows:
In a partial utilisation of the 2012/II authorised capital, Deutsche Wohnen AG increased its registered capital in January 2013 by around EUR 14.61 million by issuing around 14.61 million new no-par value bearer shares against cash contributions, excluding subscription rights. Thereby registered capital increased from around EUR 146.14 million to around EUR 160.76 million. The capital increase was recorded in the commercial register on 17 January 2013. In a partial utilisation of the 2012/II authorised capital, Deutsche Wohnen AG further increased its registered capital in June 2013 by around EUR 8.15 million by issuing around 8.15 million new no-par value bearer shares against contributions in kind, excluding subscription rights. Thereby the registered capital increased from around EUR 160.76 million to around EUR 168.91 million. The capital increase was recorded in the commercial register on 21 June 2013.

The registered capital can be contingently increased by up to around EUR 40.19 million through the issue of up to around 40.19 million new ordinary bearer shares with dividend rights from the start of the financial year of their issuance (contingent capital 2013/I).

The contingent capital increase serves to grant shares to the owners or creditors of options or convertible bonds as well as profit participation rights with option or conversion rights which, in accordance with the authorisation of the Annual General Meeting of 28 May 2013, are issued up to 27 May 2018 by the company, or by dependent companies or enterprises in which the company has a majority shareholding. It shall only be exercised insofar as option or conversion rights related to the aforementioned options or convertible bonds or profit participation rights are exercised, or if the conversion obligations arising from such bonds are fulfilled, and provided own shares, shares from the authorised capital or other methods are not used to service the obligations.

A resolution passed at the Annual General Meeting of 28 May 2013 authorises the Management Board to issue no-par value bearer convertible and/or option bonds and/or profit participation rights with option and conversion rights (or a combination of these instruments) in the nominal value of up to EUR 850 million and to grant its creditors conversion or option rights for shares in Deutsche Wohnen AG with a pro rata amount of the registered capital of up to EUR 40.19 million. On the basis of this authorisation Deutsche Wohnen AG issued a convertible bond on 22 November 2013 with a total nominal value of EUR 250 million. The holders of this bond have the right to convert it into as many as approximately 16.08 million Deutsche Wohnen AG shares. Accordingly, the 2013/I contingent capital remains at around EUR 24.11 million following the issuance.

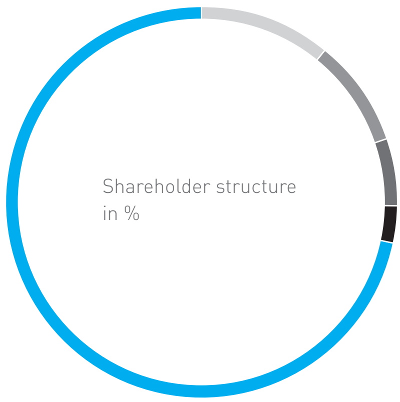
On the basis of a resolution passed at the Extraordinary General Meeting of 30 September 2013 the registered capital of Deutsche Wohnen AG was further increased in the financial year 2013 by around EUR 117.31 million through the issue of around 117.31 million new no-par value bearer shares against contributions in kind, excluding subscription rights. This increased the registered capital from around EUR 168.91 million to the around EUR 286.22 million as at 31 December 2013.

Shareholder structure[1)]

The following chart shows our shareholder structure (based on the most recent notification from the respective shareholders according to the German Securities Trading Act (WpHG)) as at 7 March 2014:

Shareholders[1)]

› 10 %	
Sun Life Financial Inc.[2)]/MFS	11.05 %
› 5 %	
BlackRock, Inc.[2)]	8.83 %
Norges Bank (Central Bank of Norway)[3)]	5.48 %
› 3 %	
Stichting Pensioenfonds ABP[3)]/ APG Algemene Pensioen Groep N.V.	3.13 %
4 institutional investors in total	**28.49 %**
Other	71.51 %
Freefloat according to Deutsche Börse	**94.52 %**



[1)] Based on the latest WpHG notification received from above stated shareholders; as at 7/3/2014
[2)] Attributed voting rights according to sec. 22, para. 1, sent. 1, no. 6 WpHG in conjunction with sec. 22, para. 1, sent. 2 WpHG
[3)] Attributed voting rights according to sec. 22, para. 1, sent. 1, no. 1 WpHG

Appointment and dismissal of members of the Management Board and amendments to the Articles of Association
Members of the Management Board are appointed and dismissed in accordance with sections 84 and 85 of the German Stock Corporation Act (AktG). The Supervisory Board appoints members of the Management Board for a maximum of five years. A reappointment or an extension of the term of office are both permitted for a maximum of five years. The articles of association of Deutsche Wohnen AG additionally stipulate in Article 5 that the Management Board has to consist of at least two members and that otherwise the Supervisory Board determines the number of Management Board members. It may appoint deputy members of the Management Board and nominate a member of the Management Board as Chief Executive Officer or Spokesperson of the Management Board.

According to section 119 (1) no. 5 of the German Stock Corporation Act (AktG), the Annual General Meeting decides on changes to the articles of association. According to Article 10 (5) of the articles of association, the Supervisory Board is authorised to make changes to the articles of association which affect the wording only. According to Article 10 (3) of the articles of association, the resolutions of the Annual General Meeting are passed by a simple majority of votes and, if a majority of shares is required, by a simple majority of capital, unless otherwise prescribed by law or the articles of association.

Group strategy and Group control

Group strategy

Deutsche Wohnen regards itself as a portfolio manager for real estate in the areas of residential and nursing care, with a clear focus on concentrated holdings in conurbations and metropolitan areas in Germany – which constitute our strategic core and growth regions. Our emphasis is on the so-called Core+ regions: approximately 79 % of our residential properties are located here. These markets are centres of high population density and are characterised by a dynamic development of economic parameters such as value creation, economic strength, income, innovative capacity and competitive functions. Approximately 19 % of our holdings are located in our so-called Core regions, which comprise markets with moderately rising rents and stable rent development forecasts.

Due to the size and quality of its residential and nursing care property portfolio, the portfolio focus on attractive German metropolitan areas and the quality of its real estate platform with highly trained and qualified employees, Deutsche Wohnen considers itself ideally placed to benefit from the growth in Germany's most important metropolitan areas and to achieve sustained increase in value of its existing residential property portfolio.

Deutsche Wohnen has in the past repeatedly demonstrated its competence in the context of the acquisition and integration of portfolios and thereby consistently achieved its related goals in both quantitative and qualitative terms. Today, the experience we have gathered in achieving this track record provides us with valuable concepts for the integration of GSW Immobilien AG, which we acquired at the end of 2013. The consolidation of the two companies will generate economies of scale and strengthen Deutsche Wohnen's position as Germany's most efficient residential property company. Also in future Deutsche Wohnen will grow value-enhancing and focussed by means of the selective acquisition of further real estate portfolios and/or nursing and residential properties.

Our competitive advantages

Deutsche Wohnen intends to further maintain its strong market position by focussing on the pursuit of a sustainable growth strategy.

Focus

Deutsche Wohnen has pursued a clear investment strategy since 2008, with its portfolio focussing primarily on growth markets. Today, approximately 98 % of our portfolio is located in major cities and conurbations in Germany, and 72 % of our overall holdings in Greater Berlin alone. Our expenses in relation to vacancies and payment defaults (i.e. rental loss) are consistently low, while our rate of investment has for years been considerably higher than the industry average.

To engage in the sector Nursing and Assisted Living in 2000 has since proved to be a wise decision on our part, with this market segment set to grow further in light of demographic developments. We are in a position, in both qualitative and quantitative terms, to use market opportunities to our advantage, while continuing to focus on growth regions and major cities.

Quality and efficiency

By virtue of the concentration of our holdings in only a few locations, we are by far the most efficient company in the German residential property sector today. The cost ratio – the staff costs and general and administration expenses in relation to the current gross rental income – in the residential property segment is, at 13.6 %, far below the industry average. In addition to the regionally concentrated nature of our holdings, the quality of our portfolio and our employees are decisive factors in Deutsche Wohnen's continued commercial success. Working together with a high degree of professionalism has enabled us to integrate approximately 45,000 residential units in the last four years in tandem with our ongoing business operations.

The high quality standards also drive the day-to-day operations of our Nursing and Assisted Living segment, as is evident from the outcome of quality tests carried out by the Medical Review Board of the German Statutory Health Insurance Funds in the context of annual evaluations. Our facilities were awarded very good ratings of between 1.0 and 1.2 in all 82 rated categories, corresponding to an overall industry ranking of 3rd place and making us one of the top providers in the nursing and assisted living sector in Germany. The success of our nursing and assisted living concept is reflected in what have been above-average occupancy rates for years. In the year under review the average occupancy rate was 96.1 %.

Capital market capability

Deutsche Wohnen's takeover of GSW has further strengthened its presence on the capital markets. It is now one of the five largest European real estate companies – on the basis of free float market capitalisation – and has gained in importance in all of the major indices; among others it has been newly added into the MSCI Global Standard Indices (Mic Cap Segment).

The Deutsche Wohnen share is currently the real estate share with the highest liquidity in Germany and the only such share being traded at a notable premium. Our dividend policy adopts a modest and sustainable approach and ensures that the company retains the financial means necessary for maintaining and increasing the value of our portfolio.

We have consistently improved our competitive position for securing capital resources in recent years, as is clearly demonstrated by the successful placement of a convertible bond in the amount of EUR 250 million at the end of last year. To further consolidate our market position in the future we continue to pursue a solid investment and dividend policy.

[1] Avivre Consult GmbH, Analysis of MDK-rating sorted by providers, October 2013

Sustainability

Deutsche Wohnen has in recent years recorded a considerable appreciation in value in conjunction with dynamic growth. As a sustainably managed company, we are putting ourselves in a position today to respond to the future opportunities and risks that are presented by global challenges, and we take on responsibility for environmental and social issues and for our employees. We believe that sustainable business activities will secure the future viability of the Deutsche Wohnen Group and also benefit our stakeholders. This means that cost savings cannot be permitted to impair the working processes and the working environment of our employees. The same applies to our properties – we will not waive a clear and focussed investment strategy in favour of short-term improvements in results.

With regard to our strategic portfolio orientation, we refer to the statements contained in the "Portfolio management and strategy" subchapter starting on page 27 of this Annual Report.

Group control

All of Deutsche Wohnen's business activities are aimed at continually improving the Group's profitability.

Our sustainable dividend policy ensures that the quality of our portfolio is maintained, and we strive to permanently keep our debt at a reasonable level for this asset class. This commitment will not be affected by the increase in the dividend pay-out ratio announced within the context of the takeover of GSW Immobilien AG.

The management of the company occurs at several levels:

At the holding level, all earnings and payment flows are aggregated in terms of the key figures of FFO, NAV and LTV, and assessed. At the same time, the Investor Relations department applies a benchmark to our principal peers on a quarterly basis. This SWOT analysis serves for the validation of Deutsche Wohnen in comparison to its key competitors.

In the Residential Property Management segment, developments in the rent per square metre and the vacancy rate, differentiated according to defined portfolios and/or regions, are the parameters for management. This includes the scope of and earnings from new lettings and the development of letting-related costs, such as maintenance, marketing of properties to let, operating costs and rental losses. All parameters are assessed and compared to detailed budget estimates on a monthly basis. Measures can be derived and strategies developed on this basis to realise rent increase potentials while controlling developments in expenses and thus constantly improving the operating results.

The Disposals segment is managed by monitoring the disposal prices per square metre and the margin as the difference between the carrying amount and the disposal price. In the process, the ascertained values are compared to the target figures and also the market on an ongoing basis, and adjusted where necessary.

As part of regular reporting, the Portfolio Management division reports to the Management Board on the development of the major indicators as compared to the target figures. Furthermore, opportunities and risks within the portfolio are identified on the basis of cluster valuation.

Other operational expenses, such as staff expenses, general and administration expenses, and non-operational indicators, such as finance expenses and taxes, are also part of the central planning and controlling system and of the monthly report to the Management Board. Current developments are also highlighted and compared to the target figures.

Considerable weight is attributed to financial expenses, as they have a significant impact on Group earnings and cash flow performance. The Corporate Finance department of Deutsche Wohnen AG (holding company) is responsible for the management of financial expenses. Active and ongoing management of the credit portfolio and the hedging rate, together with constant monitoring of the market, aims at a continuous optimisation of the financial results. In addition, the department is responsible for risk management by expanding the debt capital portfolio to include new bank partners and insurance companies, as well as new innovative financial products.

In the Nursing segment, we primarily generate internal growth by increasing nursing care charges and occupancy rates in residential nursing home facilities. In all KATHARINENHOF® facilities, rents and nursing fees are in the upper third of the average range for the relevant regional market. Reporting to the Management Board with respect to this segment also takes place on a monthly basis.

In order to measure the cash flow generated from operating business activities and compare this to target figures, we use as indicators the adjusted Earnings before Taxes (EBT) and Funds from Operations (FFO) before disposals, with the consolidated profit/loss constituting the starting value for determining the FFO, which is adjusted to reflect any depreciation and amortisation, one-off items, non-cash financial expenses or income, and tax expenses or income.

With the help of regular reporting, the Management Board and specialist departments are able to evaluate the economic development of the Group in a timely manner and compare it with the figures from the previous month and year, as well as with the target figures. In addition, the expected development of the Group's performance is determined on the basis of updated forecasts. In this manner, opportunities as well as negative trends can be identified at short notice, and corresponding measures can be taken to make use of or counteract these opportunities or trends.

Overall, the increase in shareholder value is measured by the performance of the EPRA Net Asset Value (EPRA NAV) or the Adjusted NAV, of FFO (without disposals) per share, and of the total shareholder return (increase in share price plus dividend).

Portfolio management/strategy and portfolio valuation

Portfolio management and strategy

There has been a concentration on Core+ regions in Deutsche Wohnen's investment focus in recent years, such that its residential property portfolio is today predominantly concentrated in conurbations and metropolitan areas. Berlin has in the meantime assumed a pre-eminent position within these markets.

In Greater Berlin, in particular, we have expanded our portfolio from an initial level (end of 2008) of around 25,000 units to more than 108,000 units. However, Deutsche Wohnen currently also manages residential property portfolios in Dusseldorf, Dresden, Leipzig and Potsdam. All of these markets are characterised by a dynamic increase in demand, with above-average rent and price adjustments on the supply side driven by a shortage of housing.

At the same time, Deutsche Wohnen has also focussed on withdrawing from declining markets since 2008, and has meanwhile sold off a total of over 7,000 units. Large parts of our holdings in Rhineland-Palatinate and Brandenburg and in dispersed/scattered locations throughout Germany have been disposed of to date.

The repositioning of its portfolio by means of selective acquisitions and disposals, on the one hand, and a long-term investment policy, on the other hand, today constitutes Deutsche Wohnen's strategic guiding principle and also the benchmark for the years to come.

The financial year 2013 was strongly characterised by portfolio-related transactions and integrations as well.

In addition to the takeover of GSW Immobilien AG, we acquired further holdings, predominantly in our core regions.

	Greater Berlin	Dresden	Other[1]
Number of residential units (rounded)	8,200	1,900	1,000
Gross acquisition price			
in EUR per sqm	859	804	1,012
In-place rent multiplier	14.2	14.6	15.4
FFO[2] yield	~8%	~7%	~7%

[1] Including approximately 500 residential units in Greater Berlin as part of a real estate transaction involving approximately 900 residential units
[2] FFO (without disposals) before taxes after integration

With the takeover of GSW Immobilien AG, we have invested more than EUR 4.0 billion in new property portfolios in the past twelve months, thereby laying the foundation for further organic growth. Additional information on the public takeover of GSW Immobilien AG, with approximately 60,000 residential units, can be found from page 40 of this Annual Report.

With regard to the strategic orientation of KATHARINENHOF®, we refer to the statements relating to the earnings from the Nursing and Assisted Living segment in the notes on the financial performance and financial position on page 47.

Portfolio overview

With the acquisitions made in 2013, our holdings have increased from 82,738 to 150,219 residential units, further strengthening the portfolio's focus on growth markets and the concentration of holdings in these regions.

Residential	31/12/2013 Residential units number	Area sqm k	Share of total portfolio in %	31/12/2012 Residential units number	Area sqm k	Share of total portfolio in %
Strategic core and growth regions	**146,675**	**8,902**	**98**	**77,007**	**4,699**	**93**
Core+	119,317	7,177	79	51,587	3,086	62
Core	27,358	1,726	19	25,420	1,613	31
Non-core	3,544	228	2	5,731	366	7
Total	**150,219**	**9,131**	**100**	**82,738**	**5,066**	**100**

Figures as at 31/12/2012, including acquisitions with transfer of risks and rewards as at 1/1/2013 and 1/2/2013

Today, Deutsche Wohnen owns a total of more than 150,200 residential units, of which 79 % are located in Core+ regions and 19 % in Core regions. Only 2 % are located in dispersed areas or declining markets.

Residential	31/12/2013 Residential units number	Share of total portfolio in %	In-place rent[1] EUR/sqm	Vacancy in %
Strategic core and growth regions	**146,675**	**98**	**5.56**	**2.2**
Core+	119,317	79	5.65	1.9
Core	27,358	19	5.20	3.6
Non-core	3,544	2	4.82	10.1
Total	**150,219**	**100**	**5.54**	**2.4**

[1] Contractually owed rent for rented residential units divided by rental area

The annualised current gross rental income across the entire real estate portfolio, including about 2,100 commercial units and just under 30,600 parking spaces, amounts to approximately EUR 623 million before rental increases during the course of the upcoming year and before rental shortfalls resulting from disposals within the period.

The most dynamic markets with strong rental growth are summarised in the Core+ cluster. These include Greater Berlin, the Rhine-Main region including Frankfurt/Main, and the Rhineland with its focus Dusseldorf.

	31/12/2013			
Residential	**Residential units** number	**Share of total portfolio** in %	**In-place rent[1)]** EUR/sqm	**Vacancy** in %
Core+	**119,317**	**79**	**5.65**	**1.9**
Letting portfolio	114,047	76	5.65	1.8
Privatisation	5,270	3	5.52	5.1
Greater Berlin	**108,411**	**72**	**5.53**	**1.8**
Letting portfolio	104,280	69	5.54	1.8
Privatisation	4,131	3	5.26	3.6
Rhine-Main	**9,084**	**6**	**6.92**	**2.7**
Letting portfolio	8,098	5	6.99	1.9
Privatisation	986	1	6.33	8.9
Rhineland	**1,822**	**1**	**6.41**	**3.5**
Letting portfolio	1,669	1	6.35	2.8
Privatisation	153	0	6.84	8.4

[1)] Contractually owed rent for rented residential units divided by rental area

The cluster Core comprises markets with moderately rising rents and stable rent development forecasts, including Hanover/Brunswick/Magdeburg, the Rhine Valley South and North, and Central Germany, including Dresden (approximately 2,100 residential units), Leipzig (approximately 790 residential units), Halle (Saale) and Erfurt.

	31/12/2013			
Residential	Residential units number	Share of total portfolio in %	In-place rent[1] EUR/sqm	Vacancy in %
Core	**27,358**	**19**	**5.20**	**3.6**
Letting portfolio	25,189	17	5.18	3.2
Privatisation	2,169	2	5.38	7.1
Hanover/Brunswick/Magdeburg	**11,064**	**8**	**5.23**	**4.6**
Letting portfolio	10,212	7	5.17	4.4
Privatisation	852	1	5.85	6.8
Rhine Valley South	**4,871**	**3**	**5.50**	**1.6**
Letting portfolio	4,650	3	5.49	1.2
Privatisation	221	0	5.62	10.3
Rhine Valley North	**2,954**	**2**	**5.16**	**1.7**
Letting portfolio	2,845	2	5.14	1.3
Privatisation	109	0	5.54	11.4
Central Germany	**5,720**	**4**	**4.98**	**2.8**
Letting portfolio	5,720	4	4.98	2.8
Privatisation	0	0	0.00	0.0
Other[2]	**2,749**	**2**	**5.02**	**6.2**
Letting portfolio	1,762	1	5.07	6.3
Privatisation	987	1	4.93	6.1

[1] Contractually owed rent for rented residential units divided by rental area
[2] Essentially Kiel/Lübeck

For reasons of portfolio strategy, we intend to dispose of our residential holdings in the cluster Non-core over the medium term. In particular, the sale of the residential holdings classified as "Disposal" will be expedited due to structural risks.

	31/12/2013			
Residential	Residential units number	Share of total portfolio in %	In-place rent[1] EUR/sqm	Vacancy in %
Non-core	**3,544**	**2**	**4.82**	**10.1**
Disposal	1,119	1	4.72	12.9
Other	2,425	1	4.86	8.9

[1] Contractually owed rent for rented residential units divided by rental area

Portfolio valuation

The operational development of the Deutsche Wohnen portfolio improved once again in the year under review, resulting in an increase in the value of the property portfolio by around EUR 101 million being recorded at the reporting date. An external report from CB Richard Ellis on the valuation of the properties as at the reporting date confirms the valuation result. An additional valuation effect in an amount of EUR 20 million accrued from the GSW portfolio and is shown in the pro forma overview on page 41.

Significant key valuation figures concerning our property holdings as at 31 December 2013:

	31/12/2013			
Fair value	Fair value in EUR m	Fair value in EUR per sqm	Multiple in-place rent	Multiple market rent
Strategic core and growth regions	**8,743**	**953**	**14.2**	**12.9**
Core+	**7,362**	**994**	**14.5**	**13.1**
Greater Berlin	6,475	996	14.4	13.1
Rhine-Main	742	1,271	15.4	13.3
Rhineland	146	1,177	15.5	12.8
Core	**1,381**	**784**	**12.9**	**11.8**
Hanover/Brunswick/Magdeburg	562	774	12.7	11.6
Rhine Valley South	277	878	13.3	12.3
Rhine Valley North	146	763	12.4	11.4
Central Germany	272	776	13.3	12.3
Other	123	693	12.1	10.8
Non-Core	**137**	**576**	**11.1**	**9.6**
Disposal	42	519	10,3	8.7
Other	96	605	11.5	10.0
Total	**8,881**	**944**	**14.2**	**12.8**

The significant increases in value affected Greater Berlin with about EUR 84 million and the Rhine-Main region with about EUR 21 million.

Employees

In the course of our consistent growth strategy the number of the employees increased by approximately 1,000 during the year under review: As at 31 December 2013, the Group had a total of 2,422 employees.

Employees (excl. trainees)	31/12/2013	31/12/2012
Deutsche Wohnen	477	382
KATHARINENHOF®	1,400	1,035
GSW	322	–
Facilita	223	–
Group total[1]	**2,422**	**1,417**

[1] All employees incl. those on maternity/parental leave, temporary staff and marginal employees excl. trainees

We have bolstered our ranks in quantitative and, above all, qualitative terms through the targeted recruitment of new employees. The attractive working conditions within the Group and impressive growth prospects have enabled Deutsche Wohnen to attract specialists and top industry experts to join its management team, with the company's senior management broadened in competency in the areas of capital markets, corporate development and M&A.

In addition to the recruitment and retention of motivated and highly productive employees, Deutsche Wohnen attaches great importance to encouraging such employees to obtain further qualifications and also to nurturing talent and supporting the career development of its junior staff. The reason for this is that personnel development and talent management are viewed as strategic measures for encouraging employee loyalty. We commenced the practical implementation of such concept-driven measures in the financial year 2013. Moreover Deutsche Wohnen offers young people the opportunity to gain a foothold in the real estate and nursing care industries every year – in the form of training for such careers as real estate managers, health care managers or qualified nurses. In this way, we cover to a high degree our own future requirements for skilled staff.

Trainees	31/12/2013	31/12/2012
Deutsche Wohnen	40	34
KATHARINENHOF®	72	61
GSW[1]	25	–
Group total	**137**	**95**

[1] Incl. university students in cooperative education

An important component for the success of Deutsche Wohnen's long-term sustainable growth strategy is its performance-based remuneration system, which encourages both senior executives and all other employees to focus on the attainment of corporate targets and ensures that our employees are remunerated in accordance with their performance and in line with the market. This remuneration policy is subjected to periodic benchmarking in line with the regional employment markets and to annual internal review and adjustment.

Flat hierarchies mean that our employees are given tasks which carry responsibility and that they enjoy a variety of opportunities for personal development, as well as interesting prospects. We have in the past been able to fill numerous management positions with individuals from our own ranks, and we foster up-and-coming executives in the context of targeted development programmes.

We actively encourage our employees to lead healthy lifestyles through our company's participation in corporate races held every year in Berlin and Frankfurt/Main and through regular health and fruit only days.

The results of our employee survey demonstrate a very high level of satisfaction with the working conditions at Deutsche Wohnen, with the company scoring 6.14 out of a possible 7 points – a clear indication that Deutsche Wohnen is perceived to be an attractive employer by its employees.

Sustainability report

With its business model Deutsche Wohnen pursues the goal of long-term value creation. This includes systematic sustainability management and transparent reporting procedures. In October 2013, we published our first sustainability report, entitled "More than Growth" to reflect our aim of generating sustainable growth while maintaining our success and our attractiveness as an employer over the long term. The key economic and social figures published in the report have been systematically gathered since 2012.

We are already seeing first indications of success. The ecological profile of the company's own administrative offices is good, with 100 % of the energy supply being generated using hydro-electric power, for example. We are also committed to finding environmentally compatible solutions for our residential holdings. The combined heat and power (CHP) plant Weiße Stadt ("White City") in Berlin-Reinickendorf, which went into service in 2012, supplies electricity to approximately 2,000 households, provides 2,500 residential units with warm water and has brought about a reduction in CO_2 emissions of more than 3,800 tonnes. Deutsche Wohnen also meets its responsibility for its portfolio, investing EUR 86.2 million in maintenance and modernisation in 2013 alone.

With a view to creating a solid basis for our sustainability strategy and our reporting, we asked our major stakeholders for their views regarding our company, conducting interviews with investors, tenants, political representatives, journalists and business partners and also an online survey of approximately 550 stakeholders. Deutsche Wohnen performed particularly well in the areas of "Sustainable corporate management" and "Responsibility for property holdings", while its stakeholders considered that the greatest potential for improvement lies in the area of "Environmental and climate protection".

The present sustainability report relates to the financial year 2012. It complies with the international standards of the Global Reporting Initiative (GRI) and the industry-specific requirements recommended by the European Public Real Estate Association (EPRA). It attained the Application Level B+ and was officially audited by the GRI. The company intends to expand its sustainability programme in the years to come. As well as a printed publication, an online document and a magazine version of the report are available for downloading on our website at: www.deutsche-wohnen.com/html/en/index.php.

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Economic report

General economic conditions

Global economy

Developments in the global economy once more stabilised somewhat in 2013, and the uncertainty in the global markets with regard to the ongoing euro crisis was to a large extent dispelled. The industrialised nations contributed particularly to the stabilisation and recovery of the global economy, underpinned by the expansive monetary policy of the central banks worldwide. Within the eurozone, Germany exhibited the most robust development; however, other European countries also showed initial signs of recovery and stability. In its annual report the German Council of Economic Experts estimates global economic growth in 2013 at 2.2 %, and anticipates a growth rate of approximately 3.0 % in 2014.[2]

In its Winter Baselines 2013/14, the German Institute for Economic Research (DIW Berlin) also confirms this positive trend and refers to a recovery and stabilisation of the global economy in the past year. In addition to diminished uncertainty with regard to the sovereign debt and banking crisis, the DIW Berlin sees the reasons for this development in the industrialised nations, particularly because of falling unemployment rates, lower rates of inflation and increased consumer spending by private households. The DIW Berlin estimates growth in the global economy of 3.0 % in 2013 and even expects this to rise to 3.8 % in 2014.[3]

Development in Germany

After emerging from a flat period during the winter months of 2012/2013, the economic development in Germany stabilised in the autumn of 2013, exhibiting a moderate upward trend that was bolstered by the recovery of the global markets.[4] Both the DIW Berlin and the German Council of Economic Experts anticipate average growth of 0.4 % in 2013 and 1.6 % in 2014.[5] According to initial calculations by the Federal Statistical Office Germany's price-adjusted gross domestic product increased by 0.4 % in 2013.[6]

Against a background of moderately rising prices – with the projected rate of inflation in Germany for 2013 being 1.5 % and that for 2014 being just under 1.6 % –, the recovery of the German domestic economy can be attributed, among other things, to consumption by private households. This positive development is underpinned by the relatively favourable German job market situation, with salaries rising on a sustained basis, albeit at a somewhat slower pace[7], and employment figures reaching an all-time high in 2013 for the seventh consecutive time.[8] This, coupled with the recovery of the global economy –with the eurozone also slowly emerging from recession –, has triggered a moderate increase in investments in the German economy. These investments are further bolstered by exports, which are stimulated by the global economic recovery.[9]

The Federal Statistical Office expects population figures in Germany to increase for the third consecutive year. It estimates that 80.8 million individuals were resident in the Federal Republic of Germany as at the end of 2013, approximately 300,000 more than at the beginning of the year. This increase is attributable to high net immigration from abroad. The Federal Statistical Office estimates the figure to be a little over 400,000 in 2013, the highest addition since 1993. This is counteracted by the birth deficit, which is estimated to be probably between 200,000 and 220,000 for the same year.[10]

[2] German Council of Economic Experts – Annual Report 2013/14, published in November 2013
[3] DIW Berlin – Winter Baselines 2013/14 – Weekly Report 51+52 2013

[4] German Council of Economic Experts – Annual Report 2013/14 in conjunction with DIW Berlin – Winter Baselines 2013/14 – Weekly Report 51+52 2013
[5] DIW Berlin – Winter Baselines 2013/14 – Weekly Report 51+52 2013 in conjunction with German Council of Economic Experts – Annual Report 2013/14
[6] Federal Statistical Office, press release, dated 15/1/2014 – 16/14
[7] DIW Berlin – Winter Baselines 2013/14 – Weekly Report 51+52 2013
[8] Federal Statistical Office, press release, dated 2/1/2014 – 1/14
[9] DIW Berlin – Winter Baselines 2013/14 – Weekly Report 51+52 2013
[10] Federal Statistical Office, press release, dated 8/1/2014 – 7/14

German residential property market

The residential property market in Germany has undergone a noticeable transformation in recent years. Ever more people are moving to major cities and conurbations, resulting in greater demand for living space and a rise in rental and property prices in those regions.[11]

While conurbations and metropolitan areas are experiencing steady population growth and an upturn in their residential property markets, outside of these regions the reverse is the case, particularly in rural areas, where residential property markets are faced with population decline, lower demand, an increase in vacant properties and falling prices and rents. The development of the residential property market in German metropolitan areas and in rural areas is therefore highly divergent and features significant disparities.[12]

A further trend is apparent in the increase in the number of households: while in 1991 just under 34 % of all households in Germany were single-person households, this figure had risen to just under 41 % by 2012, with the average household size, i.e. the average number of individuals per household, consequently falling from 2.27 in 1991 to 2.01 in 2012.[13] Furthermore, the favourable job market situation prevailing in Germany is encouraging an influx from abroad.[14] The demand for living space in Germany is likely to increase further as a result of these trends. In its household forecast the Federal Statistical Office anticipates that the total number of households will continue to grow until 2025 with the average size of households continuing to decrease.[15] Particularly in metropolitan areas, demand for living space is set to be intensified by the increasing number of households, the trend towards single-person households, and higher expectations in respect of living space.[16]

In addition, the uncertainty in the capital markets is making apartments increasingly attractive as capital investments and as a means of hedging against inflation, while higher incomes and historically low interest rates are inducing many individuals to purchase property, resulting in greater demand for real estate.[17] This is also evident from the high transaction volume recorded in 2013, with approximately 236,000 residential units with a value of EUR 15.8 billion changing hands, representing an increase of 40 % as compared to the previous year and also a ten-year high.[18]

Despite this rise in demand on the part of buyers and tenants, there was initially little new construction in previous years, with only a limited number of new residential units being built. However, since 2009 there has been a discernible increase once more in the number of building permits issued and construction projects completed. This increase in new builds has been most apparent in markets with a strong demand for residential units. However, this is only a delayed response to the problem, and it remains unclear whether the rate of construction will be able to keep pace with growing demand, particularly in those regions experiencing dynamic growth.[19]

[11] Cologne Institute for Economic Research, Real Estate Monitor No. 3/2013
[12] Cologne Institute for Economic Research, Real Estate Monitor No. 3/2013
[13] Federal Statistical Office, press release, dated 11/7/2013 – 233/13
[14] Federal Statistical Office, press release, dated 8/1/2014 – 7/14
[15] Federal Statistical Office, Growth of Private Households up to 2030 (published on 30/3/2011)
[16] Federal Ministry of Transport, Building and Urban Development, Report on the Rental and Real Estate Industry in Germany, April 2013 in conjunction with Cologne Institute for Economic Research, Real Estate Monitor No. 3/2013

[17] BMVBS, Report on the Rental and Real Estate Industry in Germany, April 2013
[18] Jones Lang LaSalle, press release, dated 7/1/2014
[19] BMVBS, Report on the Rental and Real Estate Industry in Germany, April 2013 in conjunction with the BMVBS website, accessed on 25/02/2014

Core+ regions

Greater Berlin

With more than 3.4 million inhabitants[20] and a working population of almost 1.8 million,[21] Berlin is not only the capital of Germany but also the country's largest city. Greater Berlin comprises the city of Berlin and the surrounding areas, above all the city of Potsdam.

Berlin as an economic and scientific location

The positive economic trend in Berlin continues. According to initial forecasts, the 1.2 % increase in Berlin's gross domestic product in 2013 was considerably greater than the average for Germany as a whole (0.4 %[22]). Growth of as much as 1.8 % is expected in 2014.[23] Companies such as Deutsche Bahn, Siemens, Vattenfall and Axel Springer have their headquarters in the national capital and are also among the largest and most important employers in Berlin. Further important employers belong to the health care sector, with Vivantes – Netzwerk für Gesundheit being the second largest employer in Berlin and the renowned Charité ranking fourth. Digital media start-ups are also increasingly gaining in importance.[24]

In 2013, the number of people in paid employment increased by approximately 33,400 to 1.8 million on a year-on-year comparison, once more ensuring Berlin the top ranking for the greatest average rise in employment figures nationwide.[25] This positive trend is also reflected in the continued decline in unemployment figures since their all-time high in 2005. The average unemployment rate in 2013, at 11.7 %, was significantly lower than in the previous year (12.3 %) and also the lowest since 1994.[26]

The per capita purchasing power of the German capital increased by 3.1 % to EUR 19,966. However, it remained significantly lower than the national average of EUR 21,220 per capita.[27]

Due to its geographical location, convenient transport routes and the range of specialised courses offered at its universities, Berlin is an important player in the development of international economic relations. Additionally, with its numerous universities, colleges and research institutes, the German capital has an excellent reputation as a location for science and research.

The very positive economic situation in Berlin is also affecting the surrounding areas, most particularly Potsdam, the state capital of Brandenburg, which has shown a net increase in new residents over the past few years. In 2011, the city had a total of 157,361 residents. The forecasts up to 2020 anticipate a further influx of new residents, which will bring the population up to 164,000.[28]

Residential property market in Berlin

The Berlin residential property market stands out as one of the most attractive growth regions in Germany and is characterised by sustained high demand for living space in the face of a relatively low level of new construction.

According to the most recent reports published by the Statistical Office for Berlin-Brandenburg, population growth in Berlin continues. At the end of September 2013, the city had approximately 3.4 million residents, 32,400 more than at the beginning of the year, with this increase being particularly attributable to a net influx of new residents.[29] Another major trend on the demand side is the rising number of single-person households in Berlin. In 2012, more than half of all households were single-person households, with elderly people and young people in particular tending to live alone. The number of single-person households as a proportion of all households has increased by approximately 1.3 percentage points to 54.3 % since 2007. In 2012 there were on average 1.73 persons per household, with a total of approximately 2.03 million households.[30] It is likely that this trend will continue in the future and that the number of households, and particularly single-person households, will continue to rise.[31]

[20] Statistical Office for Berlin-Brandenburg, press release no. 32, dated 11/2/2014
[21] Statistical Office for Berlin-Brandenburg, press release no. 18, dated 23/1/2013
[22] Federal Statistical Office, press release, dated 15/1/2014 – 16/14
[23] Berlin Senate Administration for Economic Affairs, Technology and Research, Market Report: on the Economic Situation in Berlin 3rd Quarter 2013
[24] Chamber of Commerce and Industry of Berlin (IHK Berlin), The Berlin Economy in Figures, 2013 Edition
[25] Statistical Office for Berlin-Brandenburg, press release no. 18, dated 23/1/2014
[26] Federal Employment Agency, The Job Market in Figures, Changes in the Unemployment Rate over Time, prepared on 7/1/2014
[27] MB – Research GmbH, Purchasing Power in Germany in 2013

[28] State Capital Potsdam, Economy and Statistics 03/2012
[29] Statistical Office for Berlin-Brandenburg, press release no. 32, dated 11/2/2014
[30] Statistical Office for Berlin-Brandenburg, press release no. 301, dated 29/10/2013 in conjunction with Statistical Office for Berlin-Brandenburg, Statistical Report A I 11 – j 12, published in October 2013
[31] IBB, Housing Market Report 2012 (as at February 2013)

However, there is insufficient supply to match the increase in demand for living space. Although approximately 4,200 new residential units were constructed in 2012, representing an increase of 19.6 % over the previous year, only 2,194 of these were residential units in multi-storey buildings.[32] The numbers of issued building permits paint a similar picture: in the first nine months of 2013, the number of building permits issued for new residential units increased significantly by 40 %, as compared to the equivalent period of the previous year, to approximately 7,117. However, these residential units have yet to be built. Moreover, even once they have been built, they will not be sufficient to meet the demand for living space considering the fact that, at the end of September 2013, Berlin already had 32,400 more inhabitants than at the beginning of the year. With an average of 1.73 individuals per household, this represents an increase of approximately 18,000 new households in the first nine months of 2013 alone.[33]

But the insufficient amount of new construction is not due to any lack of suitable building land, but above all to the low in-place rents in Berlin, which high construction costs cannot compete with.[34]

Not even the properties currently standing vacant can be viewed as reserve of supply because these represent a vacancy rate of less than 2 %.[35] The conversion, consolidation or demolition of living space also has the effect of reducing overall supply. This development is also reflected in the decrease in residential units available for rent and for purchase.[36]

The inevitable consequence of such an imbalance of supply and demand is an increase in rents and purchase prices. The excess demand in Berlin is also evident from the newly published rent index for 2013. While the average net cold rent shown in the rent index for 2011 was EUR 5.21 per sqm, the average rent in the current rent index for 2013 is EUR 5.54 per sqm, representing an increase of 6.3 %.[37] The 10th edition of the Residential Property Market Report Berlin, recently published by GSW Immobilien AG in collaboration with CBRE, indicates that rents for new lettings once more rose significantly in 2013 to an average of EUR 8.02 per sqm, which corresponds to an increase of 6.9 % as compared to the previous year. Purchase prices for residential units have developed in a similar manner. In 2013 the price was EUR 2,474 per sqm, 9.6 % more than in the previous year. However, this represents a deceleration in the rate of increase for purchase prices as compared to the previous year, given a 19.9 % increase in offering prices between 2011 and 2012. Compared to other major cities, Berlin is a market of great interest to national and international investors, not least due to the above-mentioned developments and the city's comparatively moderate rent levels.[38] Thus, residential properties with a value of EUR 6.8 billion changed ownership in 2013 (four times as much as in the previous year), making the capital the frontrunner ahead of all other German cities. Deutsche Wohnen AG was the major player on the purchase side in this context.[39]

Rhine-Main region including Frankfurt/Main

With around 5.6 million inhabitants, a workforce of approximately 2.1 million people, and a gross domestic product of approximately EUR 200 billion, the Rhine-Main region with Frankfurt/Main is one of the most significant economic regions in Germany. The internationally outstanding position of the region is due to its role as a financial markets centre, trade fair location and transport hub.[40]

[32] Statistical Office for Berlin-Brandenburg, press release no. 128, dated 13/5/2013
[33] Statistical Office for Berlin-Brandenburg, press release no. 32, dated 11/2/2014 in conjunction with GSW Immobilien AG, Residential Property Market Report Berlin 2014
[34] GSW Immobilien AG, Residential Property Market Report Berlin 2014
[35] Jones Lang LaSalle, The Residential Property Market in Berlin – 1st half of 2013
[36] GSW Immobilien AG, Residential Property Market Report Berlin 2014
[37] Berlin Senate Department for Urban Development and the Environment, press release, dated 23 May 2013
[38] GSW Immobilien AG, Residential Property Market Report Berlin 2014
[39] Jones Lang LaSalle, press release, dated 7/1/2014
[40] Regional Authority FrankfurtRheinMain: Regional Monitoring 2012

Frankfurt/Main as an economic location

Frankfurt/Main is the most important city within the Rhine-Main region, and its population has been rising steadily over the past few years. With approximately 685,000 inhabitants,[41] Frankfurt/Main is in terms of its number of inhabitants, the largest city in the State of Hessen and the fifth largest city in Germany.

The city is the central transport hub within Europe. The airport offers connections to the most important destinations worldwide while motorways and interstate roads directly link to the European transport network. Frankfurt/Main is, moreover, an international trade fair location and trading centre, as well as Germany's undisputed stock exchange and financial centre.[42]

The above-average purchasing power of the population of the city of Frankfurt/Main amounts to EUR 24,229, as compared to the national average of EUR 21,220, per inhabitant.[43]

Residential property market in Frankfurt/Main

The steady rise in the population figures for Frankfurt/Main is evidence of the region's attractiveness as a place to live and work. The number of inhabitants increased by 6.6 %, or approximately 40,000 inhabitants, between 2007 and 2012, whilst the increase in the number of households was even greater. In 2012, there were 8.0 % more households in Frankfurt than in 2007. As is the case in other major cities, with 54.1 % there is a clear predominance of single-person households in Frankfurt/Main due to a preference for individualised living space.[44] As a result of the growing population and an insufficient number of completed construction projects (2012: 2,144 residential units), there is a demand excess, and the new construction projects currently in progress are unable to meet the growing demand for living space.[45]

In Frankfurt/Main, the rents charged for residential units finished to a medium to good quality standard range from EUR 7.00 per sqm to EUR 16.50 per sqm, or even considerably more for properties in highly desirable residential areas, depending on the quality and location in question.[46]

Rhineland region including Dusseldorf

The focus of our core region Rhineland is the city of Dusseldorf. As the state capital of North Rhine-Westphalia with approximately 598,000 residents[47] and a workforce subject to social insurance contributions of approximately 213,000,[48] it is a very strong economic location within the region. Dusseldorf's gross domestic product amounts to approximately EUR 41 billion.[49]

Dusseldorf as an economic location

Dusseldorf has a significant economic structure, in which many internationally active corporate groups are represented, most particularly in the areas of advisory and consultancy services and trade.

All in all, there are more than 1,760 consultancy firms based in Dusseldorf, including McKinsey & Company, Inc. and the Boston Consulting Group GmbH, which makes the city the top location in Germany for consultancy firms. In addition, Dusseldorf is one of the most important trade centres, with approximately 3,800 retailers, 2,000 wholesalers and export trading companies, and a total sales area of just under 1 million sqm. Numerous major national and international retail groups have their registered offices here, for example the Metro Group, Electronic Partner, C&A and Peek & Cloppenburg. The DAX-listed groups Henkel and E.ON are also based in Dusseldorf.[50]

At the same time, the city is a large and attractive sales market. The purchasing power in Dusseldorf of EUR 25,252 per capita is significantly higher than the national average.[51]

Residential property market in Dusseldorf

According to the city's current demographic report, the sustained growth in the population, which has been evident since 2000, is set to continue, with the number of inhabitants likely to increase to 605,500 by 2025, also resulting in greater demand for living space.[52]

[41] According to the website of the City of Frankfurt/Main (last updated: 2nd quarter of 2013), accessed on 19/12/2013
[42] Regional Authority FrankfurtRheinMain: Regional Monitoring 2012 in conjunction with The City of Frankfurt/Main, Statistical Yearbook Frankfurt am Main 2013
[43] MB – Research GmbH, Purchasing Power in Germany in 2013
[44] Jones Lang LaSalle, The Residential Property Market in Frankfurt – 1st Half of 2013
[45] Jones Lang LaSalle, The Residential Property Market in Frankfurt – 1st Half of 2013 in conjunction with Chamber of Commerce and Industry (IHK), Residential Property Market Report, 2013 Edition, December 2013
[46] IHK, Residential Property Market Report, 2013 Edition, December 2013
[47] According to the Register of Inhabitants of the City of Dusseldorf (as at September 2013); website of the City of Dusseldorf, accessed on 19/12/2013
[48] Statistical and Electoral Office for the State Capital Dusseldorf, status 31/12/2012, website, accessed on 18/2/2014
[49] Statistical and Electoral Office for the State Capital Dusseldorf, status 31/12/2012, website, accessed on 18/2/2014
[50] Location Profile for Dusseldorf, State Capital Dusseldorf (as at 4/7/2012) in conjunction with the City of Dusseldorf, website, accessed on 20/1/2014
[51] MB – Research GmbH, Purchasing Power in Germany in 2013
[52] Demographic Report 2011, Dusseldorf

Rental prices in Dusseldorf continue to rise further on, averaging at EUR 9.25 per sqm in the first half of 2013, which represents an increase of 3.6 % as compared to the first half of the previous year and also emphasises the dynamic development of rental prices in this market.[53]

Core regions

Hanover, the state capital of Lower Saxony, currently has approximately 514,000 inhabitants,[54] Brunswick approximately 247,000 inhabitants and Magdeburg, the state capital of Saxony-Anhalt, 233,000 inhabitants. The purchasing power of Hanover and Brunswick is higher than the national average at EUR 22,295 and EUR 22,858 per capita respectively, while Magdeburg's purchasing power is EUR 18,411 per capita.[55]

Economic location

The above-mentioned cities are located at the centre of Germany, and – with their motorway, railway and airport links – are within easy reach of conurbations such as Berlin, the Ruhr region and Southern Germany. This geographical location offers logistical advantages to the region which attract companies such as DHL, DB Schenker, UPS and Hermes. Traditionally, the automobile industry, with companies such as Volkswagen, has been another strong sector in the region. Moreover, Hanover and Magdeburg are the seats of their respective state governments.

The city of Brunswick, which is close to Hanover, has developed into an important economic and research location within Europe, with scientific organisations and research institutes working closely with locally based companies. The industries represented there range from biotechnology to transport technology.

Machinery and plant engineering has traditionally been an important sector of industry in Magdeburg, and logistics, health care and environmental technology are further sustainable economic focal points in this region. In addition to these industries, the universities also add to the attractiveness of the Magdeburg location. Together with companies and research institutes – such as the Fraunhofer Institute or the Max Planck Institute for Dynamics – these universities form a network of research and innovation in the region.

[53] Jones Lang LaSalle, The Residential Property Market in Dusseldorf – 1st half of 2013
[54] Website, City of Hanover, accessed on 19 December 2013
[55] MB – Research GmbH, Purchasing Power in Germany in 2013

Residential property market

The residential property market in Hanover is also being positively influenced by demographic developments, with an influx of 12,000 new residents expected by 2025. At the same time, low vacancy rates and low levels of new construction are causing supply shortages.[56] In 2013, only 1.8 % of all residential units in Hanover were vacant, with the result that there were insufficient reserves for dealing with fluctuations or changes of tenant, making it very difficult to find accommodation.[57]

This situation is also reflected in the changes in rental prices, which steadily increased from EUR 5.67 per sqm to EUR 6.55 per sqm between 2005 and 2012.[58] The peak rents charged for newly developed properties and re-lettings in 2013 were EUR 13.00 per sqm and EUR 9.30 per sqm respectively.[59]

Brunswick is also expected to experience an increase in the demand for residential units largely as a result of an increase in its population figures and number of households.[60] In 2012, the average net cold rent was EUR 6.30 per sqm.[61]

In contrast to the rural districts of Saxony-Anhalt, the city of Magdeburg exhibits a stable demographic structure in the coming years, and for the time being will not experience any decline in its population. The residential property market in the state capital shows structural surpluses in the amount of nearly 17,500 residential units, with any vacancies being concentrated in residential holdings that have not been refurbished. The number of such holdings will be reduced by the city over the medium term.[62]

[56] Region Hanover, Real Estate Market Report 2013
[57] State Capital Hanover – Department of Urban Planning and Development, Analysis of Residential Property Vacancies in 2012 and 2013
[58] State Capital Hanover – Department of Urban Planning and Development, Analysis of Pricing Data for Rental Properties and Real Estate in 2012
[59] Region Hanover, Real Estate Market Report 2013
[60] NBank Living in Lower Saxony 2012 – 2030: Property Investments with Good Future Prospects
[61] NBank Living in Lower Saxony in 2012 – 2030: Property Investments with Good Future Prospects
[62] State Capital Magdeburg, Integrated Urban Development Concept of the State Capital Magdeburg: Magdeburg 2025

Acquisition of GSW Immobilien AG

Public takeover offer – structure of the transaction

On 20 August 2013, Deutsche Wohnen AG announced its intention to acquire the no-par value bearer shares of the shareholders of GSW, each representing a notional share of the registered capital of GSW in the amount of EUR 1.00, by way of a voluntary public takeover offer (in the form of a share exchange). Every GSW shareholder who accepted the offer received 2.55 shares in Deutsche Wohnen AG in exchange for each GSW share certificate with full dividend rights as of the financial year 2014.

Deutsche Wohnen's takeover offer was supported by the Management Board and the Supervisory Board of GSW. In their joint statement, which was issued in accordance with section 27 of the German Securities Acquisition and Takeover Act (WpÜG), both Boards advised their shareholders to accept Deutsche Wohnen's share exchange offer.

The acceptance period for the share exchange offer commenced on 2 October 2013 and expired on 30 October 2013.

Upon the expiration of the acceptance period, more than 78 % of the GSW shareholders had accepted the offer and tendered their shares. After the further opportunity to accept the offer during the additional acceptance period, which had been granted in accordance with section 16(2) of the WpÜG, a total of approximately 91 % of the GSW shareholders had accepted the offer. Following the exercise of its conversion rights in connection with the GSW convertible bond, Deutsche Wohnen's shareholding in GSW Immobilien AG increased to about 92 %.

Prior to this, the shareholders of Deutsche Wohnen had, in the course of an Extraordinary General Meeting, adopted the necessary resolutions for the capital increase with a majority of approximately 99.5 % of the registered capital represented at the meeting.

This clear vote of both groups of shareholders conclusively underscores the added value generated by the merger and represents a clear mandate to the company's management and employees to focus all of their attention and energy on the successful consolidation of the two companies.

A strategically and financially attractive transaction with a conservative balance sheet structure

The following section outlines the key economic and strategic aspects of the merger and the added value for the shareholders which will result from the transaction.

The takeover of GSW Immobilien AG has enabled Deutsche Wohnen to expand its concentrated and focussed portfolio of property holdings in dynamic metropolitan areas with strong rental growth. Approximately 79 % of our residential holdings are now located in these so-called Core+ regions, and approximately 72 % alone in Greater Berlin, one of the most attractive and dynamic residential property markets in Germany.

The merger of the two companies will enable us to improve and increase the efficiency of both organisational structures. Overall, we anticipate being able to generate synergies which will increase the recurring FFO profile of the joint enterprise in the amount of approximately EUR 25 million upon completion of the integration process, i.e. within approximately 24 months after the closing of the transaction. These synergies will result from improved cost structures, better operational performance and the optimisation of procurement by virtue of a stronger negotiating position. We see further potential for strengthening our FFO profile in the years to come in the form of refinancing measures on the basis of current interest rates.

Our investment strategy will not be compromised by this improved efficiency. We will continue to invest in maintaining the quality of our holdings by means of targeted maintenance and investment measures.

Moreover, we are convinced that further potential exists for increasing the FFO of the "new" Deutsche Wohnen entity and thus for generating added value for our shareholders. For example, the critical mass of residential units, particularly those located in Berlin, will enable us to carry out value-creating portfolio adjustments and enter into opportunistic privatisation transactions in order to benefit to a greater extent from the attractive market environment.

Pro forma consolidated profit and loss statement

The following table shows the consolidated profit and loss statement of the Deutsche Wohnen Group and the GSW Group for the financial year 2013, displayed both stand-alone and consolidated. For economic comparability, the GSW figures are shown for twelve months, while in the consolidated financial statements GSW was included only from 1 December 2013 on and thus the income and expenses are included there for one month only. There were no business relations to be consolidated in 2013. The presentation of the GSW consolidated profit and loss statement has largely been adapted to that of Deutsche Wohnen in order to ensure comparability.

Pro forma consolidated profit and loss statement

in EUR m	Deutsche Wohnen Group stand-alone 2013	GSW Group stand-alone 2013	Deutsche Wohnen Group pro forma 2013
Current gross rental income	353.5	236.1	589.7
Rental loss	–4.0	–5.2	–9.2
Non-recoverable operating costs	–8.9	–7.9	–16.8
Maintenance	–58.1	–21.3	–79.4
Other	–6.2	–0.5	–6.7
Earnings from Residential Property Management	**276.4**	**201.3**	**477.6**
Earnings from Disposals	**22.9**	**4.5**	**27.5**
Earnings from Nursing and Assisted Living	**13.2**	**0.0**	**13.2**
Corporate expenses	–48.1	–54.1	–102.2
Other operating expenses/income	–5.3	–1.2	–6.6
One-off transaction costs	–17.2	–20.6	–37.8
EBITDA	**241.9**	**129.8**	**371.6**
Depreciation and amortisation	–5.5	–0.5	–6.0
Fair value adjustment of investment properties	100.7	20.6	121.2
EBIT	**337.0**	**149.8**	**486.9**
Financial result	–133.2	–76.6	–209.8
EBT	**203.9**	**73.2**	**277.0**
Income taxes	–5.3	–13.2	–18.5
Consolidated result	**198.5**	**60.0**	**258.5**
FFO (without disposals)	**109.7**	**75.1**	**184.8**

Based on this, the "new" Deutsche Wohnen Group would have generated FFO (without disposals) of around EUR 185 million, not taking into account an approximately 8% minority interest in the GSW Group.

Dividend for the financial year 2013

Deutsche Wohnen determines the amount of the dividend to be paid out on the basis of the recurring FFO (FFO without disposals). In the past, we have paid out dividends in the amount of approximately 50 % of the recurring FFO. On this basis, the Management Board and the Supervisory Board will be proposing to the Annual General Meeting the payment of a dividend for the financial year 2013 in the amount of EUR 57.4 million to the shareholders. Based on the approximately 168.9 million shares which are entitled to dividends for the financial year 2013, this would correspond to a dividend in the amount of EUR 0.34 per share.

Based on our forecasts for the FFO (without disposals) of at least EUR 210 million for the financial year 2014 – or EUR 203 million taking into account an 8 % minority interest in GSW – and a dividend payment ratio of approximately 60 % of the FFO (without disposals), and on the basis of approximately 286.2 million shares which are entitled to dividends at the present time, we anticipate paying out a dividend in the amount of approximately EUR 0.42 per share for the financial year 2014.

Notes on the financial performance and position

Overall, the financial year 2013 was very successful for Deutsche Wohnen. Operationally, we achieved or exceeded our targets in lettings, disposals and nursing care. On the acquisition side we were able, with the public takeover of GSW, to take a strategic step which enables us to look to the future optimistically for the next few years.

Financial performance

Deutsche Wohnen's business activities include the letting and management of predominantly its own holdings (earnings from Residential Property Management), the disposal of residential units to owner-occupiers, investors and institutional investors (earnings from Disposals) and the operation of in-patient nursing care facilities and retirement homes (earnings from Nursing and Assisted Living).

The following overview shows the business development of the individual segments as well as other items in the consolidated profit and loss statement for the financial year 2013 compared to 2012:

in EUR m	2013	2012
Earnings from Residential Property Management	292.3	194.4
Earnings from Disposals	23.0	19.9
Earnings from Nursing and Assisted Living	13.2	9.9
Corporate expenses	– 52.9	– 40.4
Other operating expenses / income	– 22.7	12.7
Operating result (EBITDA)	**252.9**	**196.5**
Depreciation and amortisation	– 5.5	– 3.1
Fair value adjustments of investment properties	101.3	119.2
Financial result	– 130.8	– 107.0
Profit before taxes	**217.9**	**205.6**
Current taxes	– 13.8	– 10.5
Deferred taxes	8.6	– 49.6
Profit/loss for the period	**212.7**	**145.5**

Overall, Deutsche Wohnen ended the financial year 2013 with a consolidated profit/loss for the period in the amount of EUR 212.7 million (+ EUR 67.2 million compared to 2012).

In the financial year 2013 we again profited from the strong demand for housing in conurbations and metropolitan areas caused by a continuous influx of population and rising numbers of households. We were therefore able to increase rents accordingly and to further advance our disposals activities. Furthermore, the acquisitions we made during 2013 and especially the acquisition of BauBeCon Group, which was included in the consolidated financial statement for only four months in 2012, contributed to the profitability of the company.

The GSW Group earnings are included in the Deutsche Wohnen consolidated financial statement for one month due to the initial consolidation as at 30 November 2013. The pro-rata profit for the period of GSW are EUR 3.7 million.

It was possible to improve the adjusted earnings before taxes by EUR 53.4 million, or around 68 %. Among other reasons, this was due to the residential holdings that have been acquired over the past few years and the realisation of economies of scale.

in EUR m	2013	2012
Profit before taxes	**217.9**	**205.6**
Gains/losses from the valuation of properties	– 100.9	– 119.2
Transaction costs	27.7	12.2
Other non-recurring income	– 2.2	– 20.3
Gains/losses from fair value adjustments of derivative financial instruments and the convertible bond	– 10.6	0.2
Adjusted earnings before taxes	**131.9**	**78.5**

Transaction costs in 2013 largely included non-recurring expenses concerning the public takeover of GSW Immobilien AG and associated financing expenses. Costs in 2012 were related to the takeover of the BauBeCon Group.

Earnings from Residential Property Management

The following overview shows the key portfolio figures as at the reporting dates:

	31/12/2013	31/12/2012
Residential units	150,219	82,738
Residential and commercial space in sqm k	9,423	5,222
Fair value per sqm residential and commercial space in EUR	944	950[1]
In-place rent per sqm in EUR	5.54	5.49
Like-for-like rent increases in core and growth regions (letting portfolio) in %	3.3	2.6
Residential vacancy rate in %	2.4	2.5
Maintenance costs per sqm and year in EUR	10.36[2]	9.68[3]
Capital expenditure per sqm and year in EUR	4.67[2]	9.26[3]

[1] Without consideration of acquisitions with transfer of risks and rewards as at 1/1/2013 and 1/2/2013
[2] With consideration of the average floor space on a quarterly basis in the relevant period; GSW floor space for the 4th quarter only included for one month
[3] With consideration of the average floor space on a quarterly basis in the relevant period (BauBeCon floor space for the 3rd quarter 2012 only included for one month).

An overview of the portfolio as at 31 December 2013 can be found from page 27 in the subchapter "Portfolio management and portfolio strategy".

Earnings from Residential Property Management increased by EUR 97.9 million due to the acquisitions in 2012, which fully came into effect in 2013, and acquisitions in 2013 – whereby the value contributions of GSW Immobilien AG are only included for one month.

in EUR m	2013	2012
Current gross rental income	**372.9**	**240.1**
Non-recoverable operating costs	– 9.6	– 4.1
Rental loss	– 4.9	– 3.0
Maintenance	– 59.4	– 34.7
Other	– 6.7	– 3.9
Earnings from Residential Property Management	**292.3**	**194.4**
Staff and general and administration expenses	– 28.3	– 22.2
Operating results (Net Operating Income – NOI)	**264.0**	**172.2**
NOI margin in %	70.8	71.7
NOI in EUR per sqm and month	3.84[1]	4.00[2]
Change in %	– 4.0	

[1] With consideration of the average floor space on a quarterly basis in the relevant period; as at 30/6/2013 excluding floor space pertaining to companies that were consolidated for the first time as at 30/6/2013; (GSW floor space only included for one month in the 4th quarter 2013).
[2] Taking into consideration the average floor space on a quarterly basis in the relevant periods (BauBeCon floor space only included for one month in the 3rd quarter 2012).

The NOI margin was similar to that of the previous year at around 71 % in spite of the integration of new holdings and higher maintenance expenses per sqm. The contribution margin in EUR per sqm decreased by approximately 4.0 % due to a structural change to the portfolio.

The following overview shows the development of the in-place rents as well as the vacancy rates in a like-for-like comparison, i.e. only for residential holdings that we have consistently managed in the past twelve months.

Like-for-like	Residential untis number	In-place-rent[1] in EUR/sqm		Development in %	Vacancy in %	
		31/12/2013	31/12/2012		31/12/2013	31/12/2012
Strategic core and growth regions (letting portfolio)	**61,941**	**5.84**	**5.65**	**3.3**	**1.9**	**1.7**
Core+	42,626	6.12	5.87	4.2	1.2	1.5
Greater Berlin	33,079	5.89	5.64	4.6	1.0	1.1
Rhine-Main	8,097	6.99	6.78	3.2	1.9	2.6
Rhineland	1,450	6.42	6.25	2.7	2.6	2.5
Core	19,315	5.25	5.20	0.9	3.4	2.3
Hanover/Brunswick/Magdeburg	8,104	5.24	5.22	0.3	4.8	3.3
Rhine Valley South	4,648	5.49	5.39	2.0	1.2	1.3
Rhine Valley North	2,798	5.13	5.09	0.9	1.1	0.8
Central Germany	2,003	5.02	5.00	0.3	3.5	1.7
Other	1,762	5.07	5.05	0.5	6.3	3.2
Privatisation	**4,398**	**5.62**	**5.55**	**1.4**	**6.8**	**2.6**
Non-core	**2,672**	**4.86**	**4.84**	**0.5**	**10.8**	**7.0**
Total	**69,011**	**5.79**	**5.62**	**3.1**	**2.5**	**2.0**

[1] Contractually owed rent for rented residential units divided by rental area

Like-for-like rental growth in the total portfolio amounted to 3.1 % and so exceeded our expectations slightly. The like-for-like vacancy rate was at a low level of 2.5 %. The relative increase in the vacancy rate compared to 2012 is due, amongst other reasons, to the integration of the BauBeCon holdings in Hanover/Brunswick/Magdeburg. However, it was possible in part to reduce the vacancy rate in these holdings again towards the end of the year.

In the Core+ regions, we have a like-for-like rental growth of 4.2 % with a vacancy rate of only 1.2 % – our lowest figure so far. The increase in rents in Berlin – our largest single location – amounts to 4.6 %. With a vacancy rate of 1.0 % our holdings here are practically fully let.

In spite of the integration of new holdings, we were able to achieve growth of 0.9 % in the Core regions and have therefore met our expectations.

Taking into account the approximately 56,900 residential units which were continuously managed by the GSW Group in 2013 in Greater Berlin with a like-for-like rental increase of 3.8 %, this results in a pro forma value of 3.4 % for the rental development in the strategic core and growth regions as well as in the total portfolio.

Development of new letting rents in the Core+ cluster (excluding acquisitions):

Residential	New letting rent[1] in EUR/sqm	In-place rent[2] in EUR/sqm	31/12/2013 Rent potential[3] in %	31/12/2012 Rent potential[3] in %
Core+ (letting portfolio)	**7.58**	**6.10**	**24.2**	**21.6**
Greater Berlin	6.97	5.84	19.4	18.3
Rhine-Main	8.98	6.98	28.6	24.3
Rhineland	8.28	6.34	30.5	29.3

[1] Contractually owed rent from newly concluded rental agreements in non-rent restricted units, effective in 2013
[2] Contractually owed rent for rented apartments divided by rental area
[3] Rent for new lettings in comparison to the in-place rent

In the past financial year, new letting rents in the non-rent restricted letting portfolio were about 24 % above the in-place rents as at the reporting date.

Losses arising from non-recoverable operating costs and rental loss total 3.9 % based on current gross rental income.

The following table illustrates the maintenance expenses as well as the capitalised modernisation expenses (capex – capital expenditures) for the last financial year in comparison to the previous year:

in EUR m	2013	2012
Maintenance	**59.4**	**34.7**
in EUR per sqm	10.36[1]	9.68[2]
Modernisation	**26.8**	**33.2**
in EUR per sqm	4.67[1]	9.26[2]

[1] Taking into account the average floor space on a quarterly basis in the relevant period; as at 30/6/2013 excluding floor space pertaining to companies that were consolidated for the first time as at 30/6/2013; GSW floor space only included for one month in the 4th quarter 2013
[2] Taking into account the average floor space on a quarterly basis in the relevant period (BauBeCon floor space in the 3rd quarter 2012 only included for one month)

In the financial year 2013 we invested more than EUR 86 million, or EUR 15 per sqm, in the maintenance and modernisation of residential units and buildings (previous year: EUR 19 per sqm).

Regarding the development of staff expenses, and general and administration expenses (including external management fees) that are attributable to the Residential Property Management segment, we refer to the explanations of corporate expenses.

Earnings from Disposals

In the Disposals segment, we sold a total of 3,499 residential units (previous year: 3,000). The earnings from Disposals are made up as follows:

in EUR m	2013	2012
Sales proceeds	169.6	167.8
Cost of sales	– 10.3	– 11.8
Net sales proceeds	**159.3**	**156.0**
Carrying amounts of assets sold	– 136.3	– 136.1
Earnings from Disposals	**23.0**	**19.9**

Earnings from Disposals increased by around 16 % – from what was already a high level in the previous year – to EUR 23.0 million. This was due not least to general market conditions, which continue to be very good. Real estate – above all in conurbations – continues to be considered a "safe haven" and a hedge against inflation. In addition, sales activities are favoured by persistently low interest rates.

In the following, the key figures and earnings are shown separately for residential unit privatisations and institutional disposals:

Privatisations

in EUR m	2013	2012
Sales proceeds	**100.7**	**115.4**
Average sales price per sqm	1.171	1.114
Volume in residential units (#)	1.342	1.623
Cost of sales	– 8.7	– 9.2
Net sales proceeds	**92.0**	**106.2**
Carrying amounts of assets sold	– 68.6	– 86.3
Gross margin in %	46.8	33.7
Earnings	**23.4**	**19.9**
+ Carrying amounts	68.6	86.3
./. Loan repayment	– 39.9	– 52.3
Liquidity contribution	**52.1**	**53.9**

A total of 1,342 residential units were privatised in the reporting period, 39 of which on the part of GSW in December 2013. We have, therefore, significantly exceeded our target of 1,000 units for 2013. With constant cost of sales of around 8 % of sales proceeds, it was possible to increase the gross margin in comparison to the carrying amounts of the assets significantly to around 47 % (previous year: around 34 %).

Institutional sales

in EUR m	2013	2012
Sales proceeds	**68.9**	**52.4**
Average sales price per sqm	492	573
Volume in residential units (#)	2.157	1.377
Cost of sales	– 1.6	– 2.6
Net sales proceeds	**67.3**	**49.8**
Carrying amounts of assets sold	– 67.7	– 49.8
Gross margin in %	1.8	5.2
Earnings	**– 0.4**	**0.0**
+ Carrying amounts	67.7	49.8
./. Loan repayment	– 46.5	– 32.6
Liquidity contribution	**20.8**	**17.2**

In institutional sales we also focused on the streamlining of holdings in structurally weak regions in the financial year 2013 and generated total proceeds in the amount of EUR 68.9 million (previous year: EUR 52.4 million). We were, therefore, able to dispose of 2,066 residential units in our Non-core regions and further improve our portfolio structure.

Earnings from Nursing and Assisted Living

The Nursing and Assisted Living business segment is operated by the KATHARINENHOF® Group. Within the framework of its focused growth strategy, KATHARINENHOF® pursues its aim to strengthen existing core regions with acquisitions or to establish itself in new regions with a corresponding and economically viable number of nursing places.

	Facilities	Places	Income	ø Occupancy	
	number	number	EUR m	2013	2012
Berlin	7	839	20.1	94.5	99.4
Brandenburg	5	595	15.6	98.0	97.8
Saxony	7	475	11.7	100.0	99.7
Lower-Saxony	1	131	4.5	99.3	99.6
Rhineland-Palatinate	1	126	3.1	80.3	83.8
Total	**21**	**2,166**	**55.0**	**96.1**	**97.6**

Of the 21 properties, 18 are owned by Deutsche Wohnen with a fair value as at 31 December 2013 of EUR 144.9 million.

The year under review saw the transfer of risks and rewards of five acquired facilities – all in Berlin. This meant that around 425 places were added in the first quarter of 2013 and around 250 places in the fourth quarter of 2013.

The quality of the service in all these facilities is above the industry average. This is reflected in the evaluation carried out by the MDK (Medical Service of the Health Insurance Industry). KATHARINENHOF® facilities achieved very good results of between 1.0 and 1.2 (where 1.0 is "excellent") in all 82 categories, coming third in the final ratings list.[63] Our high occupancy rates, which have been above average for years, show that our ambitious care and assisted living concept is bearing fruit. The average occupancy rate in the year under review was 96.1 % (previous year: 97.6 %). This slight decline is primarily due to the acquisitions that were made.

Against the background of demographic change and the very good experience that we have gained over the past years, we will continue to expand this segment. Accordingly, our plans to expand our capacities to between 4,000 and 5,000 places in the next four to five years remain unchanged. The investment criteria are comparable to those for the residential asset class. This means that we are looking for the right location at a fair price.

The earnings for the Nursing and Assisted Living segment in the past financial year are as follows:

in EUR m	2013	2012
Income		
Nursing	52.0	36.4
Living	3.0	2.0
Other	4.9	3.6
	59.9	**42.0**
Costs		
Nursing and corporate expenses	16.4	11.3
Staff expenses	30.3	20.8
	46.7	**32.1**
Segment earnings	**13.2**	**9.9**
Attributable current interest	−3.6	−2.6
Segment earnings after interest expenses	**9.6**	**7.3**

The segment Nursing and Assisted Living contributed to the Group earnings of Deutsche Wohnen in 2013 with an EBITDA of EUR 13.2 million. After deducting the current interest rate expenses, the earnings before taxes amounted to EUR 9.6 million. The EBITDA margin in relation to the fair value of the facilities amounted to 9.1 % (previous year: 11.6 %). The decrease in the EBITDA margin compared to the previous year is largely due to the purchase of five facilities during the year and an EBITDA contribution to earnings for part of the year (not a full twelve months).

[63] Avivre Consult GmbH, Analysis of the MDK ratings by operator, October 2013

Corporate expenses

Corporate expenses include all of the staff expenses, and general and administration expenses, excluding the segment Nursing and Assisted Living. They break down as follows:

in EUR m	2013	2012
Staff expenses		
Holding Company function	12.4	9.1
Disposals	1.8	2.0
Property Management	17.6	12.5
	31.8	**23.6**
General and administration expenses	**17.7**	**12.7**
Total staff expenses. general and administration expenses	**49.5**	**36.3**
Property Management by third parties	3.4	4.1
Total corporate expenses	**52.9**	**40.4**

The corporate expenses for 2013 include a GSW share of around EUR 4.8 million for the month of December 2013, meaning that the corporate expenses for Deutsche Wohnen stand-alone were around EUR 48.1 million. The cost ratio in proportion to the current gross rental income fell markedly once again to 13.6 %, compared with 16.8 % in the previous year. Hereby the economies of scale resulting from the integration of acquisitions are clearly apparent.

The increase in staff expenses of EUR 8.2 million compared to the previous year is primarily due to the acquisitions. Around EUR 2.4 million were incurred for GSW in the month of December.

General and administration expenses were also around EUR 5.0 million higher due to acquisitions – of which EUR 2.4 million are attributable to GSW.

Other operating expenses/income

The following table shows the other operating expenses/income for the financial year 2013, with the previous year's figures for comparison:

in EUR m	2013	2012
Transaction costs	– 19.1	0.0
Other non-recurring income	2.2	20.3
Integration costs BauBeCon	0.0	– 4.4
Other	– 5.8	– 3.2
Other operating expenses/income	**– 22.7**	**12.7**

Financial result

The financial result is made up as follows:

in EUR m	2013	2012
Current interest expenses	122.0	89.6
Accrued interest on liabilities and pensions	11.8	11.4
One-off financing costs	8.6	7.8
Fair value adjustment of derivative financial instruments and the convertible bond	– 10.6	0.2
	131.8	**109.0**
Interest income	– 1.0	– 2.0
Financial result	**130.8**	**107.0**

The absolute increase in current interest expenses compared to the previous year is due to acquisitions. The reduction of the average interest rate of 3.7 % as at 31 December 2012 to 3.5 % as at 31 December 2013 went towards counteracting this increase.

As in previous years, non-cash accrued interest fundamentally affects low-interest-bearing loans, liabilities from taxes and employee benefit liabilities.

One-off financing costs in the amount of EUR 8.6 million primarily include commitment fees and commissions within the context of the public takeover of GSW Immobilien AG as well as one-off financing expenses for the issue of the convertible bond.

After interest expenses, the cash flow from the portfolio increased by almost EUR 62 million, as shown in the following table:

in EUR m	2013	2012
NOI from lettings	264.0	172.2
Current interest expenses (excluding Nursing and Assisted Living)	– 118.4	– 87.0
Cash flow from portfolio after current interest expenses	**145.6**	**85.2**
Interest cover ratio	2.23	1.98

It was possible once again to improve the interest cover ratio (NOI relative to current interest expenses) to 2.23 due to the rising operating results from Residential Property Management and scaling effects, as well as low interest rates in the context of financing.

Current taxes and deferred taxes

The current taxes for the financial year 2013 amount to EUR 13.8 million and include EUR 2.5 million non-cash tax expenses from the capital increase as well as current income taxes of EUR 11.3 million.

In contrast to previous years, Deutsche Wohnen reports income from deferred taxes in 2013. This is a technical effect, resulting from the capitalisation of deferred tax assets on losses carried forward in a fiscal unity for which significant deferred tax liabilities arose from the properties in the financial year. This is in turn due to the valuation gains and the enlargement of the fiscal unity due to the numerous acquisitions effected in 2012.

Financial position

Selected key figures from the consolidated balance sheet:

	31/12/2013		31/12/2012	
	in EUR m	in %	in EUR m	in %
Investment properties	8,937.1	88	4.614.6	94
Other non-current assets	835.4	8	104.8	2
Total of non-current assets	**9,772.5**	**96**	**4,719.4**	**96**
Current assets	204.2	2	97.9	2
Cash and cash equivalents	196.4	2	90.6	2
Total of current assets	**400.6**	**4**	**188.5**	**4**
Total assets	**10,173.1**	**100**	**4,907.9**	**100**
Equity	**3,944.3**	**39**	**1,609.7**	**33**
Financial liabilities	5,154.6	51	2,768.6	56
Convertible bond	250.2	2	0.0	0
Tax liabilities	62.6	1	63.6	1
Liabilities to limited partners in funds	4.0	0	5.1	0
Employee benefit liabilities	55.3	1	54.5	1
Other liabilities	702.1	7	406.4	8
Total liabilities	**6,228.8**	**61**	**3,298.2**	**67**
Total equity and liabilities	**10,173.1**	**100**	**4,907.9**	**100**

Our total assets more than doubled as a result of acquisitions, particularly because of the takeover of GSW, and the equity ratio increased to 39 %. The balance sheet ratios remained relatively stable.

The investment properties continue to represent the major asset item. The carrying value has been confirmed by CB Richard Ellis. The increase in other non-current assets is mostly due to goodwill (EUR 492 million) in the context of the initial consolidation of the GSW Group and deferred tax assets.

The equity has increased primarily due to the three capital measures effected in 2013. These were namely the placing of around 10 % of the issued capital at the time without subscription rights, the contribution in kind within the context of the acquisition of the Berlin portfolio of Blackstone and the capital increase for the takeover of GSW.

The development in the EPRA NAV (undiluted) is shown in the following table:

in EUR m	31/12/2013	31/12/2012
Equity (before non-controlling interests)	3,777.8	1,609.3
Effects from exercising options. convertible bonds and other rights on equity	0	0
Diluted NAV	3,777.8	1,609.3
Fair value adjustments of the convertible bond	−2.2	0
Fair values of derivative financial instruments	156.5	152.5
Deferred taxes (net)	72.6	62.6
EPRA NAV (undiluted)	**4,004.7**	**1,824.4**
Number of shares (in m)	286.22	146.14
EPRA NAV (undiluted) in EUR per share	**13.99**	**12.48**

The EPRA NAV (undiluted) per share increased in the year under review from EUR 12.48 per share to EUR 13.99 per share. The effects of exercising the convertible bond have not been taken into consideration here as the convertible bond, with an initial conversion price of EUR 18.7538 as at the reporting date, is "out of the money". In accordance with the EPRA Best Practice Recommendations[64], the dilution effect should therefore not be taken into consideration.[65]

The EPRA NAV includes the goodwill arising – among others – from the premium contained in the exchange ratio (51 Deutsche Wohnen shares for 20 GSW shares). This premium rested on the assumption that, with our combined platform, we will make savings on costs in the amount of EUR 25 million per year within two years. We valued these synergies after transaction and integration costs with a net present value of EUR 430 million. In order to illustrate how high the dilution would be without goodwill or without a valuation of the synergies, we adjusted the EPRA NAV for the goodwill. According to this adjustment, the dilution amounts to only 1.7 % in comparison with 31 December 2012:

in EUR m	31/12/2013	31/12/2012
EPRA NAV	4,004.7	1,824.4
Goodwill GSW	−491.6	0
Adjusted NAV (undiluted)	**3,513.1**	**1,824.4**
Adjusted NAV (undiluted) in EUR per share	**12.27**[1]	**12.48**

[1] The Adjusted NAV per share (diluted) would amount to around EUR 13.08 per share taking into account the effect of the conversion of the convertible bond to the value of EUR 247.9 and around 13.33 million additional shares

[64] In the context of the additional guidance provided in the EPRA Best Practice Recommendations (January 2014)

[65] For information purposes only: The EPRA NAV per share (diluted) would amount to EUR 14.20 per share taking into account the effect of the conversion of the convertible bond to the value of EUR 247.9 and around 13.33 million additional shares.

The Group's Loan-to-Value Ratio (LTV) developed as follows:

in EUR m	31/12/2013	31/12/2012
Financial liabilities	5,154.6	2,768.6
Convertible bond	250.2	0.0
	5,404.8	**2,768.6**
Cash and cash equivalents	– 196.4	– 90.6
Net financial liabilities	**5,208.4**	**2,678.0**
Investment properties	8,937.1	4,614.6
Non-current assets held for sale	57.5	24.4
Land and buildings held for sale	97.1	39.1
	9,091.7	**4,678.1**
Loan-to-Value Ratio in %	**57.3**	**57.2**

The ratio of net financial liabilities to real estate assets (Loan-to-Value Ratio; LTV) as at the balance sheet date amounted to 57.3 % and was thereby slightly above our mid-term target value of 55 %.

The prolongation structure of the following years excluding the convertible bond is as follows:

in EUR m	2014	2015	2016	2017	later/ equal 2018
Prolongations	110.4	367.9	502.6	851.8	3,421.2

As at the reporting date, the average rate of interest for the credit portfolio was approximately 3.5 % p.a. (previous year: 3.7 %). The reduction is largely due to new loan extensions arising from acquisitions with interest rates of around 3.0 % and terms of up to ten years.

As at the reporting date, the Group had EUR 190 million in credit lines at its disposal, of which EUR 140 million has not been used.

In November 2013 Deutsche Wohnen placed a convertible bond with a term of seven years and a volume of EUR 250 million with institutional investors. It comes with an annual interest rate of 0.5 % and has an initial conversion price of EUR 18.7538. From the company's point of view, this corresponds to an effective conversion premium of around 45 % on the EPRA NAV of that time of EUR 12.89 per share. The bond conditions also state that, if the conversion right is exercised, Deutsche Wohnen is allowed to meet conversion claims on the part of creditors by issuing shares, making cash payments or a combination of both. This highlights the flexibility in the management of our capital structure associated with this bond issue.

Of the tax liabilities, the sum of EUR 38.1 million (31 December 2012: EUR 46.6 million) is attributable to the present value of liabilities from the lump-sum taxation of EK-02-holdings. These taxes are payable in equal annual instalments of EUR 10.4 million in the third quarter of each year until 2017.

The other liabilities mainly comprise the following items:

in EUR m	31/12/2013	31/12/2012
Derivative financial instruments	159.3	152.5
Deferred tax liabilities	353.1	143.3
Trade payables	120.6	72.0
Miscellaneous	69.1	38.6
Total	**702.1**	**406.4**

Consolidated statement of cash flows

The most important cash flows are shown in the following:

in EUR m	2013	2012
Net cash flows from operating activities before EK-02 payments	71.5	69.6
EK-02 payments	–10.4	–10.4
Net cash flows from operating activities after EK-02 payments	**61.1**	**59.2**
Net cash flows from investing activities	–655.1	–1,238.0
Net cash flows from financing activities	699.8	1,101.5
Net change in cash and cash equivalents	**105.8**	**–77.3**
Opening balance cash and cash equivalents	90.6	167.8
Closing balance cash and cash equivalents	**196.4**	**90.6**

Deutsche Wohnen was able to meet its financial obligations in full at all times in 2013. EUR 39.0 million of cash and cash equivalents was restricted in use.

The improvement in operating performance is reflected in the operating cash flow only to a limited extent, as non-recurring transaction payments partially counter this effect.

Net cash flows from investing activities are based primarily on sales proceeds in the amount of EUR 184.1 million, expenditure on investments in its own property portfolio and acquisitions of almost EUR 0.8 billion. Furthermore, around EUR 213 million went on the acquisition of the GSW convertible bond.

Net cash flows from financing activities contain inflows in the amount of EUR 0.3 billion arising from an increase in financial liabilities. This sum is the balance of repayments at EUR 0.3 billion and new borrowing in the amount of EUR 0.6 billion. The placement of the convertible bond resulted in the Group gaining additional funds in an amount of EUR 250 million. In addition, the net cash flows from financing activities also include the gross emission proceeds from the 2013 capital increase in the amount of EUR 195.1 million as well as the dividend payment for the financial year 2012 in the amount of EUR 33.8 million in the second quarter of 2013.

Net cash and cash equivalents of EUR 145.7 million were acquired within the context of the GSW takeover.

Funds from Operations (FFO)

The key figure of funds from operations (FFO) without disposals, which is decisive for us, rose significantly by around 68 % in comparison to the previous year because of acquisitions and owing to operational improvements in the holdings:

in EUR m	2013	2012
Profit/loss for the period	**212.7**	**145.5**
Earnings from Disposals	–23.0	–19.9
Depreciation and amortisation	5.5	3.1
Gains/losses from the valuation of properties	–100.9	–119.2
Gains/losses from fair value adjustments of derivative financial instruments and the convertible bond	–10.6	0.2
Non-cash financial expenses	11.8	11.4
Deferred taxes	–8.6	49.6
Tax benefit from capital increase costs	2.5	5.6
Transaction costs	27.7	12.2
Other non-recurring income	–2.2	–20.3
FFO (without disposals) allocated to non-controlling interests	–0.4	0.0
FFO (without disposals)	**114.5**	**68.2**
FFO (without disposals) per share in EUR	0.65	0.54
average number of issued shares in EUR million	175.3	126.1[1]
FFO (including disposals)	**137.5**	**88.1**
FFO (including disposals) per share in EUR	0.78	0.70
average number of issued shares in EUR million	175.3	126.1[1]

[1] The average number of issued shares analogous to the EPS calculation, i.e. including so-called scrip adjustments from the capital increase of 2012

Overall, the FFO (without disposals) increased in the year under review by EUR 46.3 million to EUR 114.5 million. In consideration of the increase in the average number of shares issued by 39 % in comparison with the previous year, the FFO (without disposals) per share increased by more than 20 % to EUR 0.65 per share.

Events after the reporting date

The Supervisory Board of Deutsche Wohnen AG has unanimously concluded that Mr Andreas Segal, effective 31 January 2014, is to be appointed as CFO as an additional member of the Management Board of the company.

On 7 March 2014 the Management Boards of Deutsche Wohnen AG and of GSW Immobilien AG agreed, with the approval of the respective Supervisory Board, to prepare a domination agreement between Deutsche Wohnen AG, as the controlling entity, and GSW Immobilien AG, as the controlled entity, and to conclude such agreement. An offer will be made to the minority shareholders of GSW Immobilien AG to acquire their shares in exchange for newly issued shares of Deutsche Wohnen AG, and the minority shareholders will be offered a compensation payment for the duration of the agreement. The companies will determine the final structure of the provisions regarding the consideration in shares and the annual compensation payment under the agreement on the basis of a company valuation and in accordance with legal requirements.

We are not aware of any other significant events after the reporting date.

Risk and opportunity report

Risk management

Deutsche Wohnen AG continually examines any opportunities that arise to secure the continued development and growth of the Group. The utilisation of such opportunities may also entail exposure to certain risks, in which case the awareness, assessment and management of all of the important aspects of those risks will be of crucial importance. Only in this way is it possible to address risks in a professional manner. For this purpose, a central risk management system is in place within Deutsche Wohnen, which ensures the identification, measurement, management and monitoring of all material risks to which the Group is exposed. A central component of this system is detailed reporting, which is continuously monitored and developed. It creates a link to identified risk areas on the basis of relevant key operating figures and financial data. Particular emphasis is placed on the key figures for the development of lettings and privatisations, the cash flow, liquidity and the key figures of the balance sheet.

As a result of intensive communication at the management level of the Group, all decision-makers are constantly aware of all relevant developments within the company. Divergent developments or emerging risks that could potentially threaten the continued operations of the Group are thereby identified at an early stage, and appropriate remedial action is taken.

The information from risk management is documented on a quarterly basis. The Supervisory Board receives comprehensive information on all relevant issues and developments of the Group at each of its meetings. In addition, the internal risk management guidelines are updated as required.

With regard to (Group) accounting procedures, the risk management system sees itself as part of the internal control system.

The main features of the existing internal control and risk management system with regard to the (Group) accounting procedures at Deutsche Wohnen can be summarised as follows:

- Deutsche Wohnen is characterised by a clear organisational, corporate, controlling and monitoring structure.
- There are Group-wide harmonised planning, reporting, controlling and early warning systems and processes which facilitate the comprehensive analysis and management of performance-related risk factors and risks that threaten continued operations.
- The functions in all areas of the financial reporting process (e.g. financial accounting, controlling) are clearly assigned.
- The IT systems used for accounting purposes are protected against unauthorised access.
- Primarily standardised software is used in the area of financial systems.
- Adequate internal guidelines (e.g. including a Group-wide risk management policy) have been established and are adjusted as necessary.
- The departments involved in the (Group) accounting procedures meet the quantitative and qualitative requirements.
- The completeness and accuracy of (Group) accounting data is regularly monitored through random sampling and plausibility tests using both manual and software measures.
- Significant (Group) accounting-related processes are subject to regular audits. The existing Group-wide risk management system is continuously adapted to current trends and continually checked for its functionality.
- We consistently subject all (Group) accounting-related procedures to a system of dual control.
- The Supervisory Board deals, among other things, with significant issues of (Group) accounting, risk management, commissioning the audit and the main focus of the audit.

The internal control and risk management system with regard to the accounting procedures, the essential features of which are described above, ensures that business-related issues are properly recorded, processed and recognised in the balance sheet, and included as such in the external accounts.

The clear organisational, corporate, controlling and monitoring structure, as well as the sufficient resources within the accounting system in staff and material expenses provide the foundation for the efficient work of the areas involved in the accounting process. Clear statutory and internal regulations and guidelines ensure uniform and proper accounting procedures.

The internal control and risk management system ensures that the accounts at Deutsche Wohnen AG and all of the companies included in the consolidated financial statement are uniform and in line with the legal and statutory regulations and internal guidelines.

Risk report

Strategic risks

Risk due to a failure to recognise trends: Not recognising market developments and trends can lead to risks affecting the viability of the Group as a going concern. To minimise these risks, all divisions are regularly reminded to closely observe developments in their sectors and promptly inform risk management of any changes. Risk management will then take appropriate action.

Legal and corporate law risks

Legal risks which could potentially result in losses for the company may under some circumstances arise from non-compliance with statutory regulations, the non-implementation of new or amended legislation, the lack of comprehensive regulations in concluded contracts or insufficient management of insurance arrangements.

Orders to cease construction work and incomplete building permits could also have a negative effect leading to unplanned costs and construction delays. The clearing of contamination and the implementation of amendments to statutory provisions may result in increased costs.

Corporate law risks: Further risks may arise out of future mergers or ones that have already taken place. In order to counteract these risks, the Management Board orders all necessary analyses in specific cases, in order to gain an overall picture and to get ideas on how the identified risks can be dealt with. In addition, the Management Board takes detailed advice from the internal "Legal/Compliance" department as well as from external legal advisers from renowned law firms before the start of substantive negotiations. The Management Board is aware that strategic external growth should not be pursued under all circumstances.

IT risks

Deutsche Wohnen AG uses SAP as its Group-wide IT application.

Generally, there is a fundamental risk of a total failure of this application, which could lead to significant disruptions to business operations. As a result, the provision of functioning operational, maintenance and administration processes, as well as of effective monitoring mechanisms, has been contractually agreed between Deutsche Wohnen and its IT service provider. This is designed to prevent such a system failure and any possible associated data losses.

Staff risks

A decisive factor in the commercial success of Deutsche Wohnen is the staff with their knowledge and special skills. However, there is still a danger that Deutsche Wohnen may not be able to keep the most qualified and suitable employees in the company. We counteract this by providing a stimulating work environment and financial and non-financial incentives. We believe that Deutsche Wohnen is one of the most attractive employers in its sector.

Market risks

Market risks may arise in the lettings market if the economic situation in Germany deteriorates, causing market rents to stagnate or fall. In a stagnant or shrinking economy there may also be increased unemployment, which will limit the financial resources of tenants. In addition, a decline in net disposable income – whether because of unemployment, tax increases, tax adjustments or increases in service charges – can lead to fewer new lettings, lower new-letting rents and rising vacancy rates, and thus have a negative effect on the business operations of Deutsche Wohnen.

If the economic situation in Germany should deteriorate, there is also a risk that jobs will be cut. This could lead to a loss of regular income for tenants, who would therefore be unable to pay rents or pay rents on time. Management considers the probability of occurrence of this risk to be low. It can be averted in advance through close contact with the tenants and early recognition of financial problems. Tenants can then be offered smaller and more affordable apartments from Deutsche Wohnen's diversified portfolio.

In addition, an overall economic downturn can lead to a declining interest in acquiring property. In the areas of both individual privatisation and block sales there would be a risk that investments would be postponed by potential buyers and that therefore the disposal plans of Deutsche Wohnen will be delayed.

Property risks

Property risks may arise at the level of the individual properties, the portfolio and the location of the property.

At the level of the individual property this comprises, in particular, maintenance failures, structural damage, inadequate fire protection or wear and tear by the tenant. Furthermore, risks may arise from contamination including wartime contamination, pollutants in soil and harmful substances in building materials as well as from possible breaches of building requirements. At the portfolio level, risks appear as a result of a concentration in the structure of the holdings. Such risks may include increased maintenance and refurbishment costs and an increased difficulty in letting units.

Financial risks

With a variety of interests and a complex ownership structure, increased transparency and greater management input are needed to avoid a negative impact on the Group's business operations. In addition, there is an increasing dependence on the commercial trade and tax environment. Inadequate planning and management and a lack of effective controlling of the investment proceeds could result in lower revenues.

Fundamental changes in tax conditions can lead to financial risks. Deutsche Wohnen has generated deferred tax assets amounting to EUR 212.1 million in loss carry-forwards. Should the use of loss carry-forwards be limited in time or even denied entirely, the corresponding amount would occur as expenditure from depreciation and amortisation of this deferred tax assets.

Among the financial risks, Deutsche Wohnen includes delayed cash flows from revenues and loans and unforeseen expenses, leading to liquidity problems. Furthermore, fluctuations in the valuation of property (IAS 40) due to negative developments in the property market and of derivatives can result in annual adjustments in the profit and loss statement.

Financial market risks

Banks may no longer be able or willing to extend expiring loans. It is possible that refinancing will become more costly and that future contract negotiations will take more time to complete. The refinancing volume of Deutsche Wohnen up to and including 2015 as at 31 December 2013 is about EUR 463 million, of which about EUR 95 million is due in 2014. In the loan agreements there are financial covenants, which could lead to extraordinary termination by the banks if the terms of these covenants are not met. At Deutsche Wohnen these are key financial figures which relate to the debt servicing ability (Debt Service Cover Ratio (DSCR)/Interest Service Cover Ratio (ISCR)) and the debt ratio in relation to the rental income (multiplier).

The significant risks to the Group arising from financial instruments comprise interest-related cash flow, liquidity and default risks. The company management prepares and reviews risk management guidelines for each of these risks. Default risks, or the risk that a partner will not be able to meet its payment obligations, are managed by using credit lines and control processes. Deutsche Wohnen does not face any considerable default risk, either from partners or from groups of partners with similar characteristics. The Group reviews the risk of liquidity shortfalls daily by using a liquidity planning tool. Deutsche Wohnen seeks to ensure that sufficient funds are available to meet future obligations at all times. The interest rate risk to which the Group is exposed is mainly derived from non-current financial liabilities with floating interest rates and is largely hedged through interest rate derivatives. Please refer to our information in the notes on the consolidated financial statements.

Investment risks

The selection and planning of major repair work can lead to an incorrect allocation of investment funds. It is also possible that additional units acquired will not meet revenue expectations. This could have a negative impact on the business operations of the Group. Moreover, incomplete information in due diligence reports and evaluations as well as non-transparent procurement decisions and the failure to comply with procurement rules (e.g. in the use of public funds with the result of repayment) all entail risk.

Other risk factors that are directly related to investments by the company are exceeding the budgeted costs, the failure to meet deadlines, and shortfalls in the standard of fixtures and fittings. This may require additional work on the part of the company. Similarly, delays in the start-up of operations, loss of rent (rent reductions under certain circumstances) or an inadequate correction of deficiencies can lead to increased expenses. Deutsche Wohnen uses external and internal experts, as well as ongoing project monitoring, to minimise these risks.

General Acquisition and integration risks

Every acquisition is reviewed in detail by us. In the process, a legal, financial and technical due diligence is conducted, and external specialists are consulted. This procedure is a standardised process of Deutsche Wohnen in order to recognise and assess risks with regard to acquisitions. We are continuing our growth strategy with acquisitions in existing as well as new regions. In doing so, we are expecting synergy effects and cost savings. Nonetheless, we cannot rule out the possibility that these goals cannot be achieved fully or only in part or at a later time. The development of the acquired holdings is additionally dependent on a number of factors: the rents to be expected, the possible reduction of vacancies, the cost of repair measures, the intended privatisations, t he disposal of non-strategic units as well as the costs of the integration process. The integration of new holdings requires a reorganisation of administration and management as well as of internal structures and processes.

These factors may deviate from our assessments and lead to failure to achieve the forecast results or to increased risks.

Risks related to the takeover of GSW Immobilien AG

The integration of the two corporate groups commenced upon the closing of the takeover offer, and is likely to extend over a two-year period and require considerable human and financial resources. The successful integration of the companies presupposes the successful consolidation of the two workforces, the merging of different corporate cultures, the harmonisation of the IT systems and the creation of joint processes for the integrated Group.

Furthermore, the takeover and the integration may have an adverse effect on the contractual or legal position of one or other of the two corporate groups. For example, GSW Immobilien AG and some of its subsidiaries are members of the Pension Institution of the Federal Republic and the Federal States, which is responsible for the pensions of employees of former public sector companies.

Moreover, the corporation and trade tax loss carry-forwards of the GSW Group resulting from the acquisition of the shareholding by Deutsche Wohnen AG may be entirely or partially lost. However, the unused corporation and trade tax loss carry-forwards will only be lost to the extent that no exceptional provisions, for example with regard to silent reserves, apply. As matters currently stand, we assume that it will be possible to use corporation and trade tax loss carry-forwards of the GSW Group in the amount of approximately EUR 0.6 billion and that these will not be lost.

Deutsche Wohnen AG anticipates that the takeover of GSW will generate various synergies and economies of scale. However, the possibility that the anticipated synergies and economies of scale may not be realised, or may only be realised to a lesser degree than originally anticipated can not be excluded. Furthermore, the costs associated with the realisation of synergies may prove to be higher than expected and the portfolio of the GSW Group may perform differently than assumed by Deutsche Wohnen AG in the context of its original valuation.

Moreover, Deutsche Wohnen AG cannot exclude the possibility that circumstances of material importance for the valuation of the GSW Group were not publicly known and – given the fact that Deutsche Wohnen AG was unable to inspect important documents relating to the GSW Group (due diligence) prior to announcing its decision to make a share exchange offer – were not, therefore, taken into consideration in the valuation of the GSW Group for the purpose of determining the exchange ratio for the shares.

The takeover of GSW Immobilien AG also comprises the acquisition of the goodwill of the company, which is subject to annual impairment tests.

Following the takeover of GSW Immobilien AG, a large proportion (approximately 72 % of the total number of residential units) of the residential property portfolio of Deutsche Wohnen is now located in Greater Berlin, with the result that the company's economic performance is to a significant extent dependent on the performance of the property market in Greater Berlin and, in particular, on the development of contractual rents, vacancy rates and residential unit prices in that market. As in past years, Deutsche Wohnen AG considers the residential property market in Greater Berlin to be one of the most attractive and dynamic residential property markets in Germany.

Political and regulatory risks

Regulatory interventions in tenancy law could affect the financial position of a residential property company. This would particularly be the case if, for example, new maximum limits for the rent on existing and/or new lettings were determined by law. The coalition agreement of the CDU/CSU and the SPD for the 18th legislative period envisages empowering federal states to restrict rent increases upon the re-letting of living space to a maximum of 10 % above the customary local reference rent for a period of five years "in areas with tense residential property markets". First-time lettings of new properties and subsequent lettings following extensive modernisation are excluded from that. The rent which may potentially be charged for re-lettings must be at least commensurate with the previous rent level. Furthermore, it was agreed in the coalition agreement that in future a maximum of only 10 % of any modernisation costs – until amortisation of those costs, at the latest – may be passed on to the tenants. Given that no specific legislation or specific draft legislation dealing with this issue exists at the present time, it is not currently possible to estimate or quantify the consequences of any planned measures.

Opportunities for future development

In 2013, Deutsche Wohnen further strengthened its competitive position and once more demonstrated its integration ability.

The Deutsche Wohnen residential property portfolio exhibits considerable potential for growth, particularly in its Core+ regions, with Berlin, Dusseldorf and the Rhine-Main region on the top ranks in a comparison of Germany's major cities.

Deutsche Wohnen's strategic goal of increasing the focus of its residential property portfolio on these interesting growth markets was consequently pursued with the takeover of GSW Immobilien AG.

Our position in the capital markets has once again improved considerably. As at the reporting date, we have a market capitalisation of just under EUR 4.0 billion, which is virtually double the figure for the previous year. This improvement in our capital market profile has already increased our share liquidity, which is likely to further improve our MDAX position and considerably bolster the Deutsche Wohnen share price.

Our financing structure is more than solid: We have secured financing for the long term and have an appropriate debt ratio (LTV). Our business model is well established with our bank partners and our credit rating has improved steadily over the course of time. We anticipate further potential for interest savings – on the basis of current interest rates – in the years to come, particularly from 2015 onwards.

The concentration of our portfolio on growth markets to date will also give us a decisive competitive edge over our competitors in the future.

Corporate management

We have published the information according to section 289a of the German Commercial Code (HGB) on our website www.deutsche-wohnen.com.

Remuneration report

The remuneration system for the Management Board and the total remuneration of the individual members of the Management Board are determined by the Supervisory Board and are subject to regular review.

The remuneration is statutorily regulated in the German Stock Corporation Act (AktG) and is supplemented by the regulations of the German Corporate Governance Code.

The remuneration is split into a fixed and a variable component, whereby the variable component predominates. The variable component includes a short-term and a long-term element.

The short-term remuneration element – short-term incentive (STI) – is orientated towards short-term company targets, which are agreed annually in a target agreement between the Management Board and the Supervisory Board. The identification of the level of target attainment is determined after the relevant financial year has ended. The STI is paid over several years – as of the financial year 2013 65% is paid upon approval of the consolidated financial statement. The retained amounts remain non-interest-bearing in the company and are paid out as follows: 10% after two years and 25% after three years provided that the economic situation of the company has not deteriorated for reasons for which the Management Board member bears responsibility to such an extent that the Supervisory Board would be justified in reducing that member's earnings in accordance with section 87, sub-section 2 of the German Stock Corporation Act (AktG). This idea of granting payments leads to more than 50% of the variable remuneration being structured over a period of years. The actual remuneration structure at the end of the period may vary.

The long-term component – the long-term incentive (LTI) – is calculated according to the provisions of the Deutsche Wohnen senior managers' "Performance Share Unit Plan" (PSU plan). According to this plan, the amount of the LTI depends on the development of the key figures of Funds from Operations (FFO), Net Asset Value (NAV) and the share price of Deutsche Wohnen AG within a four-year performance period.

According to the terms of the PSU plan, a new performance period begins each year. At the start of this period, a base value is agreed for each member of the Management Board in accordance with the contractual remuneration commitments stated in their contracts of employment. An entitlement to payment of the remuneration component only exists after the expiry of the relevant performance period, i.e. after four years. The amount of the payment entitlement is dependent on the development of the key figures for the FFO, NAV and the share price of Deutsche Wohnen during the performance period. Given the structure prescribed in the PSU Plan for long–term incentives, both positive and negative developments are taken into account. In the event of extremely positive developments, there is a cap on the maximum amount to be paid out. A negative development reduces the amount of the initial base value and the amount to be paid out up to the total loss of the payment right.

In the event of a premature termination of his employment due to a change in control of the company, the Chief Executive Officer has been promised payments in accordance with the cap on remuneration that is prescribed in section 4.2.3 paragraph 4 of the German Corporate Governance Code.

The contracts also provide that the Supervisory Board can approve a special bonus in the event of extraordinary developments.

The members of the Management Board have been granted the following remuneration:

in EUR k	Michael Zahn Chief Executive Officer since 1/9/2007				Lars Wittan Member of the Management Board since 1/10/2011				Helmut Ullrich Member of the Management Board until 31/12/2012	
	2012	2013	2013 (Min.)	2013 (Max.)	2012	2013	2013 (Min.)	2013 (Max.)	2012	2013
Fixed remuneration	350	450	450	450	200	250	250	250	275	0
Supplementary payments	27	27	27	27	25	24	24	24	19	0
Total fixed	**377**	**477**	**477**	**477**	**225**	**274**	**274**	**274**	**294**	**0**
Short-term incentive	400	476	0	500	200	238	0	250	300	0
short-term due	300	309	0	325	150	155	0	163	240	0
long-term due	100	167	0	175	50	83	0	88	60	0
Long-term incentive	150	150	0	450	100	100	0	300	125	0
Total variable	**550**	**626**	**0**	**950**	**300**	**338**	**0**	**550**	**425**	**0**
Special remuneration	0	900	675	900	0	600	450	600	0	0
Total amount	**927**	**2,003**	**1,152**	**2,327**	**525**	**1,212**	**724**	**1,424**	**719**	**0**

The special remuneration was granted for the successful takeover of GSW Immobilien AG. 50 % of the amount was paid in 2013. With respect to the second part the Management Board has commited itself to fully invest the net amount in Deutsche Wohnen AG shares. However, 50 % of this amount is dependent on achieving the synergy potential of EUR 25 million per year.

As at the reporting date the entitlements of the Management Board resulting from the long-term incentive in the period 2010 to 2013 have a value of EUR 3.2 million (Michael Zahn EUR 1.35 million, Helmut Ullrich EUR 1.12 million and Lars Wittan EUR 0.74 million).

The following amounts were paid to the members of the Management Board in the financial year 2013:

in EUR k	Michael Zahn Chief Executive Officer since 1/9/2007 2012	2013	Lars Wittan Member of the Management Board since 1/10/2011 2012	2013	Helmut Ullrich Member of the Management Board until 31/12/2012 2012	2013
Fixed remuneration	350	450	200	250	275	0
Supplementary payments	27	27	25	24	19	0
Total fixed	**377**	**477**	**225**	**274**	**294**	**0**
Short-term incentive	300	300	38	150	160	240
short-term due	300	300	38	150	160	240
long-term due	0	0	0	0	0	0
Long-term incentive	0	0	0	0	0	0
Total variable	**300**	**300**	**38**	**150**	**160**	**240**
Special remuneration	0	450	0	300	0	0
Total amount	**677**	**1,227**	**263**	**724**	**454**	**240**

In the beginning of 2014, the Supervisory Board once again concerned itself with the appropriateness of the overall remuneration of the members of the Management Board. In doing so, the Supervisory Board took into consideration the responsibilities of each member of the Management Board and the economic situation of the company, whilst paying particular regard to each member's personal achievements, the success of the company and its positive future prospects. The amount and structure of the remuneration were also evaluated in consideration of the new company size in the reference group. The Supervisory Board will therefore submit the new remuneration structure and the total remuneration of the members of the Management Board to the next Annual General Meeting in 2014.

Forecast

Review 2013

We are concluding the financial year 2013 with an FFO (without disposals) of around EUR 115 million and have therefore significantly exceeded our forecast of EUR 100 million. The increase is partially due to improved cost structures within the context of earnings from Residential Property Management – we are profiting significantly from the low vacancy rate here. On the other hand, the increase in FFO is also due to the numerous acquisitions we have made. Just the consolidation of GSW in the month of December contributed around EUR 5 million to FFO (without disposals).

General economic conditions

The general economic conditions in Germany are largely considered to be stable. Both the DIW (German Institute for Economic Research) and the German Council of Economic Experts anticipate average growth of 1.6 % in 2014. The forecast rate of inflation in 2014 is just under 1.6 %.[66]

The residential property market in Germany is robust and in the conurbations in particular prices will continue to increase because of the low level of new building activity.

As regards the financial markets, we do not anticipate any significant change to the low interest rate policy of the central banks, so interest rates should remain at their current low level.

In our plan for the financial year 2014, we have assumed that legal and fiscal framework conditions will not change. The potential effects of rent control or other regulatory measures have not been taken into consideration in the plan.

We are also expecting the company to continue positively; we do not currently see any risks that could pose a threat to the company's existence. Overall, we anticipate a favourable environment for the 2014 forecast period.

Takeover and integration process

Following the acquisition of around 70,000 units in 2013, the takeover and integration of these portfolios is paramount in the financial year 2014. The integration of GSW is our top priority. We are strongly committed to realise the anticipated synergies of EUR 25 million within the next two years.

FFO (without disposals) for 2014: At least EUR 210 million

We anticipate an FFO (without disposals) of at least EUR 210 million for the financial year 2014, including the most recent acquisitions. In consideration of an 8 % minority interest in GSW the FFO (without disposals) amounts to around EUR 203 million. For individual business segments we are planning the financial year 2014 as follows:

For the segment Residential Property Management, we anticipate earnings of around EUR 500 million. The expenditure on maintenance on average of both groups will continue to range around the current level. This corresponds to the average for both groups of companies during previous years. We will decide on additional value-enhancing investment measures for the next few years after analysing the total portfolio in detail.

In the segment Disposals, the focus will be on privatisation. We will also continue to streamline the Deutsche Wohnen Group portfolio in the next financial year. Disposals from within the strategic core and growth regions will be decided depending on the situation and the opportunities that present themselves. The plan for disposal earnings is based on the experiences of each of the groups of companies. The results of the analysis of the portfolio may lead to changes being made.

For the segment Nursing and Assisted Living, we anticipate a contribution to earnings of around EUR 15 million in light of the acquisitions effected most recently.

Frankfurt/Main, 10 March 2014

Michael Zahn Chief Executive Officer	Andreas Segal Member of the Management Board	Lars Wittan Member of the Management Board

[66] DIW Berlin – Winter Baselines 2013/14 – Weekly Report 51+52 2013 in conjunction with German Council of Economic Experts – Annual Report 2013/14

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

as at 31 December 2013

in EUR k	Notes	31/12/2013	31/12/2012
ASSETS			
Investment properties	D.1	8,937,118	4,614,598
Property, plant and equipment	D.2	26,818	20,348
Intangible assets	D.3	503,674	3,256
Derivative financial instruments	D.6	2,656	0
Other non-current assets		21,749	438
Deferred tax assets	D.15	280,509	80,716
Non-current assets		**9,772,524**	**4,719,356**
Land and buildings held for sale	D.4	97,124	39,143
Other inventories		3,294	3,206
Trade receivables	D.5	29,784	20,842
Income tax receivables		2,624	1,188
Derivative financial instruments	D.6	77	0
Other current assets		13,706	9,078
Cash and cash equivalents	D.7	196,423	90,571
Subtotal current assets		**343,032**	**164,028**
Non-current assets held for sale	C.10	57,544	24,425
Current assets		**400,576**	**188,453**
Total assets		**10,173,100**	**4,907,809**

in EUR k	Notes	31/12/2013	31/12/2012
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company			
Issued share capital	D.8	286,217	146,143
Capital reserve	D.8	2,601,804	859,251
Retained earnings	D.8	889,762	603,930
		3,777,783	**1,609,324**
Non-controlling interests	D.8	166,492	346
Total equity		**3,944,275**	**1,609,670**
Non-current financial liabilities	D.9	4,903,262	2,634,286
Convertible bond	D.10	247,937	0
Employee benefit liabilities	D.11	55,300	54,538
Tax liabilities	D.14	27,937	36,509
Derivative financial instruments	D.6	124,795	113,694
Other provisions	D.13	6,458	7,102
Deferred tax liabilities	D.15	353,061	143,331
Total non-current liabilities		**5,718,750**	**2,989,460**
Current financial liabilities	D.9	251,322	134,357
Convertible bond	D.10	2,244	0
Trade payables		120,641	71,962
Liabilities to limited partners in funds	D.12	4,004	5,142
Other provisions	D.13	9,752	7,272
Derivative financial instruments	D.6	34,458	38,767
Tax liabilities	D.14	34,653	27,060
Other liabilities		53,001	24,119
Total current liabilities		**510,075**	**308,679**
Total equity and liabilities		**10,173,100**	**4,907,809**

Consolidated profit and loss statement

for the period from 1 January to 31 December 2013

in EUR k	Notes	2013	2012
Income from Residential Property Management	E.1	372,929	240,054
Expenses from Residential Property Management	E.2	– 80,628	– 45,633
Earnings from Residential Property Management		**292,301**	**194,421**
Sales proceeds		169,661	167,756
Cost of sales		– 10,327	– 11,763
Carrying amounts of assets sold		– 136,315	– 136,106
Earnings from Disposals	E.3	**23,019**	**19,887**
Income from Nursing and Assisted Living		59,935	42,013
Expenses from Nursing and Assisted Living		– 46,737	– 32,089
Earnings from Nursing and Assisted Living	E.4	**13,198**	**9,924**
Corporate expenses	E.5	– 52,858	– 40,421
Other expenses/income		– 22,720	12,726
Subtotal		**252,940**	**196,537**
Gains from the fair value adjustments of investment properties	D.1	101,287	119,203
Depreciation and amortisation	D.2/3	– 5,509	– 3,129
Earnings before interest and taxes (EBIT)		**348,718**	**312,611**
Finance income		954	1,959
Gains/losses from fair value adjustments of derivative financial instruments	D.6	10,634	– 214
Finance expense	E.6	– 142,392	– 108,720
Profit before taxes		**217,914**	**205,636**
Income taxes	E.7	– 5,201	– 60,123
Profit for the period		**212,713**	**145,513**
Thereof attributable to:			
Shareholders of the parent company		212,411	145,513
Non-controlling interests		302	0
		212,713	**145,513**
Earnings per share			
basic in EUR		1.21	1.15
diluted in EUR		1.20	1.15

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2013

in EUR k	2013	2012
Profit for the period	**212,713**	**145,513**
Other comprehensive income		
Items reclassified as expense at a later stage		
Net gain/loss from derivative financial instruments	53,389	– 57,637
Income tax effects	– 16,612	17,804
	36,777	**– 39,833**
Items not reclassified as expense at a later stage		
Actuarial losses/gains in pensions and impacts of caps for assets	757	– 7,873
Income tax effects	– 202	2,410
	555	**– 5,463**
Other comprehensive income after taxes	**37,332**	**– 45,296**
Total comprehensive income, net of tax	**250,045**	**100,217**
Thereof attributable to:		
Shareholders of the parent company	249,735	100,217
Non-controlling interests	310	0

Consolidated statement of cash flows

for the period from 1 January to 31 December 2013

in EUR k	Notes	2013	2012
Operating activities			
Profit/loss for the period		212,713	145,513
Finance income		–954	–1,959
Finance expense		142,392	108,720
Income taxes		5,201	60,123
Profit/loss for the period before interest and taxes		**359,352**	**312,397**
Non-cash expenses/income			
Fair value adjustment of investment properties	D.1	–101,287	–119,203
Depreciation and amortisation	D.2/3	5,509	3,129
Fair value adjustment to interest rate swaps		–10,634	214
Other non-cash operating expenses/income	G	–42,965	–33,943
Change in net working capital			
Change in receivables, inventories and other current assets		12,717	–3,126
Change in operating liabilities		–11,749	2,775
Net operating cash flows		**210,943**	**162,243**
Interest paid		–132,791	–93,487
Interest received		954	1,959
Taxes paid/received excluding EK-02-payments		–7,586	–1,072
Net cash flows from operating activities before EK-02-payments		**71,520**	**69,643**
EK-02-payments	D.14	–10,421	–10,421
Net cash flow from operating activities		**61,099**	**59,222**
Investing activities			
Sales proceeds	G	184,124	163,540
Purchase of property, plant and equipment/investment property and other non-current assets		–771,820	–1,400,555
Payments for the purchase of the convertible bond of GSW		–213,087	0
Receipt of investment subsidies		1,347	432
Proceeds from acquisition of companies		145,722	0
Payments to limited partners in funds	D.12	–1,341	–1,420
Net cash flows from investing activities		**–655,055**	**–1,238,003**
Financing activities			
Proceeds from borrowings	D.9	640,379	847,402
Proceeds from the issuance of convertible bonds	D.10	250,000	0
Repayment of borrowings	D.9	–331,037	–158,526
One-off financing costs for transactions	E.6	–12,979	–7,782
Proceeds from the capital increase	D.8	195,100	461,157
Costs of the capital increase	D.8	–7,896	–17,199
Dividend paid	H	–33,759	–23,529
Net cash flows from financing activities		**699,808**	**1,101,523**
Net change in cash and cash equivalents		**105,852**	**–77,258**
Opening balance of cash and cash equivalents		**90,571**	**167,829**
Closing balance of cash and cash equivalents		**196,423**	**90,571**

Consolidated statement of changes in equity

as at 31 December 2013

in EUR k	Issued share capital	Capital reserves	Retained earnings: Pensions	Retained earnings: Reserves for cash flow hedge	Retained earnings: Other reserves	Subtotal	Non-controlling interests	Equity
Equity as at 1 January 2012	**102,300**	**496,174**	**– 1,261**	**– 61,380**	**547,239**	**1,083,072**	**302**	**1,083,374**
Profit/loss for the period					145,513	145,513		145,513
Other comprehensive income after tax			– 5,463	– 39,833		– 45,296		– 45,296
Total comprehensive income, net of taxes			**– 5,463**	**– 39,833**	**145,513**	**100,217**	**0**	**100,217**
Capital increase	43,843	417,314				461,157		461,157
Costs of capital increase, less tax effects		– 11,593				– 11,593		– 11,593
Transfer from the capital reserve		– 42,645			42,645	0		0
Change non-controlling interests						0	44	44
Dividend paid					– 23,529	– 23,529		– 23,529
Equity as at 31 December 2012	**146,143**	**859,251**	**– 6,724**	**– 101,213**	**711,868**	**1,609,324**	**346**	**1,609,670**
Equity as at 1 January 2013	**146,143**	**859,251**	**– 6,724**	**– 101,213**	**711,868**	**1,609,324**	**346**	**1,609,670**
Profit/loss for the period					212,713	212,713		212,713
Thereof non-controlling interests					– 302	– 302	302	0
Other comprehensive income after tax			555	36,777		37,322		37,332
Thereof non-controlling interests			8	0		– 8	8	0
Total comprehensive income, net of taxes			**574**	**36,777**	**212,411**	**249,735**	**310**	**250,045**
Capital increase	140,074	1,817,779				1,957,852		1,957,852
Costs of capital increase, less tax effects		– 5,370				– 5,370		– 5,370
Transfer from the capital reserve		69,855			69,855	0		0
Change non-controlling interests						0	165,837	165,837
Dividend paid					– 33,759	– 33,759		– 33,759
Equity as at 31 December 2013	**286,217**	**2,601,804**	**– 6,177**	**– 64,436**	**960,375**	**3,777,782**	**166,492**	**3,944,274**

Notes to the consolidated financial statements

for the financial year as at 31 December 2013

A General information on the consolidated financial statements of the Deutsche Wohnen Group

1 The Deutsche Wohnen Group

The consolidated financial statements of Deutsche Wohnen AG ("Deutsche Wohnen") as at 31 December 2013 were prepared by the Management Board on 10 March 2014. The Supervisory Board is scheduled to approve the consolidated financial statements at its meeting on 20 March 2014. Deutsche Wohnen AG is a publicly listed real estate company based in and operating across Germany with its registered office at Pfaffenwiese 300, Frankfurt/Main, and is registered in the commercial register of the Frankfurt/Main District Court under number HRB 42388.

The business activities of Deutsche Wohnen AG are limited to its role as the holding company for the companies in the Group. These comprise, in particular, Asset Management, Corporate Finance, Investor Relations, Communication and Human Resources. The operating subsidiaries focus on residential property management and disposals relating to properties, as well as on the division Nursing and Assisted Living.

The consolidated financial statements are presented in Euros. Unless stated otherwise, figures are rounded to the nearest thousand (EUR k) or the nearest million (EUR m) EUR. For arithmetical reasons there may be rounding differences between tables and references and the exact mathematical figures.

2 Consolidated financial statements

The consolidated financial statements of Deutsche Wohnen and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU).

The consolidated financial statements have been prepared on a historical cost basis. This excludes, in particular, investment properties, the convertible bond and derivative financial instruments, which are measured at fair value.

The consolidated financial statements comprise the financial statements of Deutsche Wohnen and its subsidiaries as at 31 December of each financial year. The financial statements for the subsidiaries are prepared using consistent accounting and valuation methods as at the same reporting date as the financial statements of the parent company.

3 Application of IFRS in the financial year

With the exception of new and revised standards and interpretations, the same accounting and valuation methods were applied to the consolidated financial statements for the past financial year as were used for the consolidated financial statements as at 31 December 2012.

The following standards were applied for the first time in the financial year 2013:

The "Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income" have been implemented since 1 January 2013, and additionally identify in the statement of comprehensive income those components of other cumulated equity which, subject to the fulfilment of certain requirements, will in future have to be reported in the profit and loss statement. The figures for the previous year have been reported accordingly.

We have applied the "Amendments to IAS 19 – Employee Benefits" since 1 January 2013. The first-time application results exclusively in additional obligatory disclosures in the Notes.

IFRS 13 "Fair Value Measurement" introduces an extensive framework concept for the determination of fair value. It has been applied since 1 January 2013 and entails greater disclosure obligations with respect to assets and liabilities measured at fair value. Apart from this, its application had no significant effect on the financial position or financial performance.

Furthermore, in the financial year 2013 there were no changes arising from the first-time application of the IFRS standards or IFRIC interpretations.

The following shows IFRS standards which have already been published but do not have to be applied yet:

IFRS 9 "Financial Instruments" was published by the IASB in November 2009. According to this standard, in future, financial assets are to be allocated to one of the two valuation categories "at amortised cost" or "at fair value", and are valued accordingly. Based on a change published in December 2011, IFRS 9 henceforth only has to be applied to financial years starting on or after 1 January 2015. It has not yet been adopted into European law. The amendments published in November 2013 contain new regulations relating to hedge accounting and replace the corresponding regulations contained in IAS 39. The amendments to IFRS 9 introduce a new general model for the recording of hedging activities on the balance sheet which extends the range of the underlying transactions and hedging instruments which come into question in this context. In addition, the amendments to IFRS 9 confer a right to select the method of hedge accounting to be applied, i.e. whether to report all hedging activities in accordance with the existing IAS 39 regulations or in accordance with the new IFRS 9 regulations. The application of the new standard will result in changes to the presentation and accounting of financial assets and liabilities.

In May 2011, the IASB published IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interest in Other Entities", amendments to IAS 27 "Separate Financial Statements" and amendments to IAS 28 "Investments in Associates and Joint Ventures". IFRS 10 replaces the current regulations on consolidated financial statements (parts of IAS 27 "Consolidated and Separate Financial Statements") and special purpose entities (SIC-12 "Consolidation – Special Purpose Entities") and stipulates that the control approach is the standard principle from now on. These changes will be initially applicable for financial years starting on or after 1 January 2014 following their adoption in European law. However, the changes to IFRS 10, IFRS 11 and IFRS 12, which were published in June 2012 by the IASB, and which serve to clarify the IFRS 10 transition rules and concern simplifications for initial application have not yet been adopted in European law. We assume that the new and revised standards will not have any significant effects on the financial position and financial performance.

The IASB and the IFRS IC issued further statements during the reporting year, which will not have any significant effect on the consolidated financial statements.

4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require considerable adjustments to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies and valuation methods, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements. However, this excludes decisions involving estimates. Insofar as statements regarding discretionary decisions in the context of individual rules had to be made, an explanation was provided for the corresponding items.

Operating lease commitments – Group as lessor

The Group has entered into leases to rent out its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. The carrying amounts of the investment properties amount to EUR 8.9 billion (previous year: EUR 4.6 billion).

Estimates and assumptions

The most important assumptions concerning the future and other key sources of uncertainty concerning estimates at the reporting date – where these are at significant risk of necessitating a material adjustment to the carrying amounts of assets and liabilities within the next financial years – are discussed below.

Fair value of investment properties

The fair value of investment properties was determined internally by a portfolio valuation as at 31 December 2013. The properties are clustered on the basis of their location and property quality. Assumptions regarding the development of rents, vacancies, vacancy losses, maintenance costs and discount rates are made on the basis of these clusters. These valuation assumptions are subject to uncertainties due to their long-term nature that may lead to either positive or negative value adjustments in the future. The carrying amount of the investment properties amount to EUR 8.9 billion (previous year: EUR 4.6 billion).

Value of goodwill arising out of the acquisition of GSW

The value of the goodwill arising out of the acquisition of GSW was tested for impairment as at 31 December 2013 on the basis of a discounted cash flow projection derived from key real estate-related figures. The estimated inflow of cash and cash equivalents from the Residential Property Management of GSW and the potential synergies expected to be realised as a result of the company acquisition were discounted at a risk-adjusted discount rate of 4.91 % as at the balance sheet date. The carrying amount of the goodwill arising out of the acquisition of GSW amounted to EUR 491.6 million (previous year: EUR 0 million) as at the balance sheet date. The following assumptions underlying the calculation of the value in use of the reporting units entail some uncertainty as to the accuracy of the estimates:

- Projected inflow of funds: The projections are based on historical empirical figures and take account of expected market growth for this specific sector on the basis of the location of the real estate portfolio in question. To the extent that the inflow of funds is reduced by 5.8 % in the last planning year, the value in use will be commensurate with the carrying amount.

- Discount rate: The discount rate for the reporting units is determined on the basis of average weighted capital costs in line with industry standards. To the extent that the discount rate is increased to 5.13 %, the value in use will be commensurate with the carrying amount.

- Growth rate: Growth rates are based on published industry-related market research. To the extent that the growth rate is reduced to 0.75 %, the value in use will be commensurate with the carrying amount.

Pensions and other post-employment benefits

Expenses relating to post-employment defined benefit plans are determined on the basis of actuarial calculations. The actuarial calculations are made on the basis of assumptions regarding discount rates, future wage and salary increases, mortality and future pension increases. Such estimates are subject to significant uncertainty due to the long-term nature of these plans. The employee benefit liability from pensions obligations as at 31 December 2013 amount to EUR 55.3 million (previous year: EUR 54.5 million).

B Basis of consolidation and consolidation methods

1 Basis of consolidation

The consolidated financial statements comprise Deutsche Wohnen AG and the subsidiaries it controls from the time of their acquisition, being the date on which the Group obtains control. They continue to be consolidated until the date when such control ceases. The composition of Deutsche Wohnen can be seen in the list of shareholdings attached as Appendix 1.

In 2013, the basis of consolidation changed as follows:

- A total of 98 (previous year: 54) new companies have been fully consolidated (Appendix 1). Of the 47 newly included companies, 20 companies are business combinations according to IFRS 3 and therefore are included in the consolidated financial statement.

- 27 companies are intermediate holding companies or residential property companies without autonomous business operations. The acquisition of these companies cannot be classified as business combination in accordance with IFRS 3, given that the companies in question essentially comprise real estate assets and financing allocated to these assets, and do not, therefore, meet the criteria for an operating business.

- As part of the acquisition of the GSW Group and the LebensWerk Group 16 companies and 4 companies respectively were fully consolidated for the first time in the financial year. Three previously fully consolidated companies are no longer included in the basis of consolidation as a result of intra-Group mergers or accretions.

2 Consolidation methods

The financial statements for the subsidiaries are prepared using consistent accounting and valuation methods as at the same reporting date as the financial statements of the parent company. Subsidiaries are fully included in the consolidation from the time of acquisition, being the date on which the Group obtains control. They continue to be consolidated until the date when such control ceases.

Consolidation of capital is made in accordance with the acquisition method, according to which the acquisition costs arising in the context of the acquisition of companies and businesses are offset against the fair value of the acquired assets and liabilities at the time of the acquisition on a pro rata basis. A difference in a positive amount resulting from this offsetting is recognised under assets as goodwill. Negative differences are immediately recognised in the consolidated profit and loss statement. The date of the acquisition represents the date at which control over the assets and the financial and operating activities of the acquired company or business is transferred to the Group. Differential amounts arising out of disposals and acquisitions of shares of non-controlling shareholders are offset within equity.

All intra-Group balances, transactions, revenues, expenses, gains and losses from intra-Group transactions which are included in the carrying amount of the assets are eliminated in full.

Non-controlling interests (minority interests) represent the share of the profits and net assets not attributable to the shareholders of the parent company of the Group. Non-controlling interests (minority interests) are shown separately in the consolidated profit and loss statement and in the consolidated balance sheet. The disclosure in the consolidated balance sheet is made within equity, separate from the equity attributable to the owners of the parent company.

3 Company acquisitions

Deutsche Wohnen has acquired 100 % of the shares in the LebensWerk Group, which has been fully consolidated since 31 January 2013, with the result that the earnings of the LebensWerk Group for 11 months are included in the profit/loss for the period of Deutsche Wohnen. The LebensWerk Group operates four nursing and assisted living facilities in Berlin, which supplement the facilities already operated by KATHARINENHOF® in terms of organisation, size and location.

At the date of first-time consolidation, the fair value of the acquired assets and liabilities was as follows:

in EUR m	
Investment properties	32.1
Other non-current assets	12.1
Liquid funds	0.5
Non-current liabilities	–22.8
Current liabilities	–1.5
	20.4

The other non-current assets consist mainly of the fair value of the customer base of the four nursing facilities. No significant trade receivables were acquired.

Allowing for acquired liquid funds in the amount of EUR 0.5 million, the total cash amount of the purchase price contained in the net cash flows from investment activities was EUR 19.9 million.

Had the LebensWerk Group been fully consolidated from 1 January 2013, it would have contributed revenues in the amount of approximately EUR 14.2 million and earnings before taxes (EBT) in the amount of approximately EUR 1.8 million to the consolidated profits.

This business combination resulted in transaction costs in the amount of EUR 1.6 million, primarily in relation to property transfer tax and consultancy costs.

In the second quarter of 2013, Deutsche Wohnen executed agreements for the acquisition of the facility "Uferpalais", with the transfer of risks and rewards occurring on 1 October 2013. This nursing and assisted living facility supplements the business operations of the facilities already operated by KATHARINENHOF® and strengthens the Berlin location.

At the date of first-time consolidation, the preliminary fair value of the acquired assets and liabilities was as follows:

in EUR m	
Investment properties	27.6
Other non-current assets	0.9
	28.5

No liquid funds were acquired. The total cash amount of the purchase price contained in the net cash flows from investment activities was EUR 27.7 million.

Had the acquisition been fully consolidated from 1 January 2013, it would have contributed revenues in an amount of approximately EUR 7.5 million and earnings before taxes (EBT) in an amount of approximately EUR 2.0 million to the consolidated profits. This business combination resulted in transaction costs in the amount of EUR 2.2 million, primarily in relation to property transfer tax and consultancy costs.

In August 2013, Deutsche Wohnen submitted a takeover offer to the shareholders of GSW Immobilien AG ("GSW" or the "GSW Group"), offering to exchange the shares of the shareholders of GSW for new shares of Deutsche Wohnen to be issued. Following a General Meeting held for the purposes of creating authorised capital for the issue of new shares and the publication of an offer document containing information on the exchange transaction, the exchange of the shares was effected on 28 November 2013. The takeover offer was accepted by approximately 91.05 % of the shareholders of GSW (equivalent to 46,003,783 shares in GSW, which were exchanged for Deutsche Wohnen shares in the ratio of 51:20).

GSW is a company based in Berlin which is primarily active in the area of the letting and disposal of rental residential units. As at 31 December 2013, the GSW Group managed a total of approximately 60,000 rental residential units.

This business combination resulted in preliminary acquisition costs for 91.05 % of the shares in the amount of EUR 1,658.7 million. This sum is based on the market value of the shares of Deutsche Wohnen which were issued in exchange for the shares in GSW. The market value of the Deutsche Wohnen shares as at 27 November 2013, the date of the share exchange, was EUR 14.14 per share. Acquisition costs in the amount of EUR 18.4 million were reported as expenses. In addition, further expenses were incurred in relation to the financing of the takeover and in the context of the subsequent integration process.

The allocation of the purchase price for the purchased value of assets and liabilities as at the reported date is provisional, because only public information was available up until the takeover of control of the GSW Group while the corporate acquisition was made in proximity in time to the balance sheet date. The preliminary acquisition costs may be allocated to the acquired assets and liabilities, valued at preliminary estimated fair values, as follows:

GSW in EUR m	30/11/2013
Investment properties	3,376.9
Goodwill	491.6
Other non-current assets	9.6
Current assets	42.7
Liquid funds	145.2
Acquired assets	**4,066.0**
Acquired non-controlling interests	**–0.4**
Non-current liabilities	–1,882.4
Current liabilities	–361.4
Acquired liabilities	**–2,243.8**
Net assets at 100 %	**1,821.8**
Non-controlling interests	–163.1
Acquisition costs for 91.05 % shareholding	**1,658.7**

The non-tax-deductible goodwill is above all attributable to non-separable values such as synergy effects expected to arise out of the integration and strategic advantages resulting from the leading market position of the acquired company, and was allocated in full to the Letting segment.

The gross amount of the acquired trade receivables was EUR 21.1 million and includes value adjustments in the amount of EUR 9.4 million.

Had GSW been fully consolidated from 1 January 2013, it would have contributed approximately EUR 236.2 million to the proceeds from letting operations and approximately EUR 60.0 million to the consolidated profits.

C Accounting policies and valuation methods

1 Assessment of the fair value

The fair value is the price which would be received for the disposal of an asset or paid for the transfer of a liability in the context of an orderly business transaction between market participants on the assessment date. The assessment of the attributable fair value is based on the presumption that the business transaction in the context of which the asset is sold or the liability is transferred occurs in either

- the primary market for the asset or liability in question, or
- where no primary market exists, the most advantageous market for the asset or liability in question.

The Group must have access to the primary or most advantageous market. The fair value of an asset or a liability is determined by reference to the assumptions on which the market participants would base their pricing of the asset or liability, assuming that the market participants would thereby be acting in their own best economic interests.

The Group applies valuation techniques which are appropriate in the individual circumstances and for which sufficient data is available for the carrying out of a valuation of fair value. In this context, it is necessary to apply observable input factors to the greatest possible extent and minimise the application of non-observable input factors.

All assets and liabilities, whose fair value is determined or reported in the financial statements, are classified in accordance with the following fair value hierarchy, based on the input parameter at the lowest level which is of overall significance for the valuation at fair value:

- Level 1 – (Unamended) prices quoted in active markets for identical assets or liabilities.

- Level 2 – Valuation procedure pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at fair value can be directly or indirectly observed in the market.

- Level 3 – Valuation procedure pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at fair value cannot be observed in the market.

In the case of assets and liabilities which are recognised in the financial statements on a recurring basis, the Group will decide whether the levels within the hierarchy have been reached by carrying out a review of the classification (on the basis of the input parameter at the lowest level which is of overall significance for the valuation at fair value) at the end of each reporting period.

2 Investment properties

Investment properties are properties that are held to generate rental income or for the purpose of generating value and which are not used by the company itself or held for sale in the course of normal business activities. Investment properties include land with residential and commercial buildings, undeveloped land and land with leasehold rights of third parties.

Investment properties are measured initially at cost including transaction costs. Subsequent to the initial recognition investment properties are measured at fair value. Gains or losses arising from adjustments are included in the profit and loss statement.

Internal valuations were carried out as at 31 December 2013 and 31 December 2012. The portfolio was also evaluated by CB Richard Ellis GmbH, Frankfurt/Main, as at 31 December 2013 and 31 December 2012, and the total value was confirmed. Value deviations for individual properties were no larger than +/– 10 %. The total valuation by CB Richard Ellis deviated by approximately – 0.16 % (previous year: – 0.1 %) from the internal valuation.

Investment properties are derecognised when either they have been sold or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses from the permanent withdrawal from use or disposal of investment properties are recognised in the year of their withdrawal from use or disposal.

Properties are transferred from the investment properties portfolio if there is a change of use caused by the company either starting to use the property itself or by the commencement of development with an intention to dispose.

3 Property, plant and equipment

Property, plant and equipment are stated at cost net of cumulative depreciation and amortisation and cumulative impairment losses. Subsequent acquisition costs are recognised insofar as it is likely that a future economic benefit from the property, plant and equipment will accrue for Deutsche Wohnen.

Straight-line depreciation and amortisation is based on the estimated useful life of the asset. The useful life of buildings is 50 years. The useful life of moveable fixed assets is four to ten years.

Impairment tests regarding the carrying amounts of property, plant and equipment are performed as soon as there are indications that the carrying amount of an asset exceeds its recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising when the asset is derecognised is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, and is included in the consolidated profit and loss statement for the period in which the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at the end of each financial year and adjusted if appropriate.

4 Intangible assets

Deutsche Wohnen only recognises acquired intangible assets on the balance sheet. These are measured on initial recognition at cost. No economic or legal restrictions are currently in place with respect to the use of the intangible assets.

Intangible assets with a certain useful life are amortised on a straight-line basis over their respective useful lives. Their useful lives are between three and five years.

Intangible assets with an uncertain useful life, including goodwill in particular, are not amortised on a scheduled basis. These assets are subjected to impairment testing at least once a year on an individual asset basis or at the level of the cash-generating unit.

5 Borrowing costs

Borrowing costs are recognised as an expense in the period in which it arises. There were no effects from the application of IAS 23 (revised), as the relevant assets (properties) were already recognised at fair value.

6 Impairment of non-financial assets

The non-financial assets consist mainly of property, plant and equipment, intangible assets and inventories. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the following: an asset's or cash-generating unit's fair value less disposal costs and its value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is depreciated to its recoverable amount.

Goodwill acquired in the context of the acquisition of companies and businesses and intangible assets with uncertain useful lives are subjected to an impairment review at least once a year. For impairment testing purposes, these assets are attributed to those cash-generating units which are expected to benefit from the synergies resulting from the acquisitions of the companies and businesses. These cash-generating units represent the lowest level at which these assets are monitored for corporate management purposes. After gaining control of the GSW Group a corresponding cash-generating unit exists in the letting activities of the GSW Group.

The impairment test is carried out by determining the carrying amount of the cash generating units based on estimated future cash flows, those from the planned Funds from Operations without disposals (FFO without disposals), which have been derived from actual values and projected for a three year period with a customary growth rate. The carrying amounts of the cash generating units are, however, essentially determined by the end value. The carrying amounts of the cash generating units are, however, essentially determined by the end value, which will be dependent on the projected cash flow in the third year of the medium-term planning as well as the growth rate of the cash flows thereafter and the discount rate. After the three-year period, the cash flows are extrapolated using a growth rate of 1.0 %, which does not exceed the presumed average market or industry growth rate.

A discount rate, based on the Group's weighted capital cost rate, of 4.91 % after taxes or 5.40 % before taxes is used to determine the present value.

Impairment losses are recognised in the profit and loss statement in those expense categories consistent with the function of the impaired asset within the company.

For all assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, and amortisation had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the profit and loss statement. There is no revaluation of any unscheduled depreciation and amortisation of goodwill.

7 Financial assets

Financial assets within the scope of IAS 39 are classified by Deutsche Wohnen

- as financial assets at fair value through profit or loss,
- as loans and receivables,
- as available-for-sale financial assets, or
- as derivative financial instruments designed as hedging instruments in an effective hedge.

Financial assets are recognised initially at fair value. In the case of financial assets which are not classified as having been valued at fair value, transaction costs which are directly attributable to the acquisition of the asset are taken into account. Financial assets are assigned to the valuation categories upon initial recognition. If permitted and necessary, reclassifications are made at the end of the financial year.

Other than derivative financial instruments with and without hedging context, Deutsche Wohnen has not to date recognised any financial assets held for trading purposes or financial assets held to maturity on the balance sheet.

The receivables and other assets recognised in the consolidated balance sheet of the Deutsche Wohnen Group are allocated to the category "loans and receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently valued at amortised cost using the effective interest method less impairment. Gains and losses are recognised in the profit/loss for the period when the loans and receivables are derecognised or impaired or when amortised.

Impairment of receivables from rental activities is made on the basis of empirical values. Reasonable individual impairments are made for other receivables and assets.

Interest rate hedging transactions are recognised at fair value on the basis of a mark-to-market method, regardless of whether they are classified as an effective or non-effective hedging instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to receive cash flows from the financial asset have expired.

8 Inventories

Inventories comprise land and buildings held for sale and other inventories. Land and buildings held for sale are sold in the normal course of business, which may exceed a period of twelve months.

The initial valuation is made at cost. At the reporting date, the inventories are valued at the lower value of cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs up to completion and the estimated costs necessary to make the sale.

9 Cash and cash equivalents

Cash and cash equivalents on the consolidated balance sheet comprise cash in hand and cash at bank.

10 Non-current assets held for sale

Deutsche Wohnen Group recognises investment properties as assets held for sale if notarised sales contracts are present as at the reporting date but the transfer of ownership will take place at a later date. The valuation, depending on the classification of the property before reclassification, is based on the carrying amount or the sales price.

11 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified by Deutsche Wohnen either

- as other financial liabilities that are carried at amortised cost,
- as financial liabilities which are reported on the balance sheet at fair value, or
- as derivative financial liabilities that meet the requirements of an effective hedging transaction.

Financial liabilities
Loans and borrowings are initially recognised at fair value less the transaction costs directly associated with the loan. After initial recognition, the interest-bearing loans are subsequently valued at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss statement when the liabilities are derecognised or during the amortisation process.

Convertible bond
Convertible bonds which, in the event of a conversion by creditors, can be serviced by the company either in cash or in the form of shares and for which a market price can be determined on the basis of share prices are valued at their fair value, this being conform to the nominal value, when recognised for the first time. The transaction costs arising in connection with the issue are reported as finance expenses. The convertible bond is thereafter valued at its market price on the relevant reporting date. Gains and losses arising as a result of the market valuation are recognised in the profit and loss statement (financial liabilities, which are valued at fair value).

Trade payables and other liabilities
Liabilities are initially recognised at fair value. After initial recognition, they are valued at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss statement when the liabilities are derecognised or during the amortisation process.

Liabilities to limited partners in funds
In accordance with IAS 32 (revised 2003), the termination rights of a limited partner are a decisive criterion for the distinction between equity and debt capital. Financial instruments granting the owner (here: limited partner) the right to return the instrument to the issuer in return for payments of money constitute a financial liability. Due to the termination rights of the limited partners, the limited partnership interests and the "net assets of shareholders" are recognised as debt capital. In accordance with IAS 32.35 (revised 2003), the profit shares of the limited partners are consequently recognised as a finance expense.

The net assets of the limited partners have to be recognised at the fair value of any possible repayment amount at the end of the financial year. Value increases are recognised as finance expenses and impairments as finance income in the consolidated profit and loss statement. The amount of the repayment obligation depends on the articles of association.

Within Deutsche Wohnen, there are liabilities to limited partners in funds of EUR 4.0 million (previous year: EUR 5.1 million.)

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in the profit and loss statement.

12 Pensions and other post-employment benefits

Employee benefit liabilities are formed to meet commitments (pensions, invalidity, surviving spouse pensions and surviving dependant benefits) for pensions and ongoing benefits to eligible active and former employees and their surviving dependants. In total there are pension commitments for 840 employees (thereof 333 active staff and 507 retired personnel), with pension payments provided on the basis of the period of employment and the salary level at retirement age.

Expenses for benefits granted as part of defined contribution plans are determined using the projected unit credit method. Actuarial gains and losses are recognised with an earnings-neutral effect in the consolidated statement of comprehensive income.

On the basis of statutory provisions, Deutsche Wohnen pays contributions to state pension insurance funds from defined contribution plans. These current contributions are shown as social security contributions within staff expenses. Payment of the contributions does not constitute any further obligations for the Group.

There is also a pension plan drawn up in accordance with the regulations governing public sector supplementary pensions. It is based on the membership of a Group company in the Bayerische Versorgungskammer (hereinafter BVK) – the supplementary pension fund of Bavaria – and in the Versorgungsanstalt des Bundes und der Länder (hereinafter VBL) – the supplementary pension fund of the Federal Republic and the Federal States. The supplementary pension comprises a partial or full reduced earnings capacity pension plus an age-related pension as a full pension or surviving dependant's pension. The charge levied by the BVK and the VBL is determined by the employees' compensation, which is used to calculate the supplementary pension contribution.

Both the BVK and the VBL, therefore, represent a defined benefit plan of several employers that, in accordance with IAS 19.30 (a), is accounted for as a defined contribution plan because they have not provided sufficient information to account for the plan as a defined benefit plan.

No specific information is known regarding any overfunding or underfunding of the plan or the related future effects on the Deutsche Wohnen Group. In future, increasing/decreasing payments of premiums by Deutsche Wohnen to the BVK and the VBL may result from possible excess or deficient cover.

13 Provisions

Provisions are recognised when the Group has a present obligation (statutory or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss statement net of any reimbursement. If the impact of the interest rate is significant, provisions are discounted at an interest rate before tax that reflects the specific risks of the liability. In the case of discounting, the increase in provisions due over time is recognised as a finance expense.

14 Lease

Leasing transactions are differentiated between finance leases and operating leases. Contractual provisions that transfer all significant risks and rewards associated with the ownership of an asset to the lessee are reported as finance leases. The lessee records the leased asset as an asset and the corresponding obligations are recognised as liabilities. All other leasing transactions are recorded as operating leases. Payments from operating leases are prinicipally recorded on a straight-line basis over the contractual period as income (from the point of view of the lessor) or expense (from the point of view of the lessee).

15 Revenue and expenses recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In addition, the following criteria have to be met when recognising revenue:

Rental income
Rental income is recognised monthly over the period of the leases in accordance with the tenancy agreement.

Disposal of property
Revenue is recognised when the significant risks and rewards associated with the ownership of the disposed property have been transferred to the purchaser.

Services
Revenue is recognised in accordance with the delivery of the service.

As part of long-term performance-based remuneration there are share-based remuneration components which are settled through funds. The remuneration components to be expensed over the vesting period correspond to the fair value of the equity-based remuneration on the reporting date. The determination of fair values is based on generally accepted valuation methodologies. Liabilities are accounted for in a corresponding amount.

16 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. In the case of a grant related to an expense item, it is recognised as planned income over the period necessary to match the grant on a systematic basis to the expenses that it is intended to compensate.

Deutsche Wohnen has received government grants in the form of disbursement subsidies, disbursement loans and subsidised-interest loans.

Disbursement subsidies, in the form of rent subsidies, are recognised in the profit and loss statement. They are recognised as income from Residential Property Management.

Disbursement loans and subsidised-interest loans are property loans and are recognised as financial liabilities. In comparison with loans made under market conditions, both offer advantages such as lower interest rates or interest-free and redemption-free periods. The loans are valued at fair value and are subsequently carried at amortised cost. However, they are to be viewed in conjunction with rent restrictions concerning the properties, which were taken into account when determining the fair value.

Furthermore, Deutsche Wohnen received investment subsidies in the amount of EUR 1.3 million (previous year: EUR 0.4 million) and offset these against the acquisition costs.

17 Taxes

Current income tax assets and liabilities
Current income tax assets and liabilities for the current period and for previous periods are valued at the amount expected to be recovered or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those which apply as at the reporting date.

Deferred taxes
Deferred tax is created using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences that are subject to tax, with the following exception: in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, deferred tax liabilities are not recognised.

Deferred tax assets are recognised for all deductible temporary differences, carry-forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The following exceptions apply:

- Deferred tax assets from deductible temporary differences which arise from the initial recognition of an asset or a liability in a transaction that is not a business combination and that, at the time of the business transaction, affect neither the profit/loss for the period for commercial law purposes nor taxable profit or loss may not be recognised.

- Deferred tax assets from taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount for deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when an asset is realised or a liability is settled, based on tax rates (and tax laws) that apply or have been announced as at the reporting date.

Deferred taxes relating to items that are recognised directly in equity are recognised in equity and not in the consolidated profit and loss statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

18 Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments to hedge against interest rate risks. These derivatives are initially recognised at fair value when the corresponding agreement is entered into and are subsequently reported at fair value. Derivative financial instruments are recognised as assets if their fair value is positive and as liabilities if their fair value is negative. The valuation is carried out using the mark-to-market method.

Deutsche Wohnen recognises concluded interest rate hedges on the basis of the hedge accounting regulations of IAS 39. In addition to documentation concerning the hedging correlation between the hedge and the underlying item, the requirement for hedge accounting is proof of the effectiveness of the hedging correlation between the hedge and the underlying item. If an effective correlation exists, the effective part of the value adjustment of the hedge is directly recognised in equity without affecting earnings. The non-effective part is recognised in the profit and loss statement. As far as the requirements for hedge accounting existed, the fair values of the hedging instruments were classified as current or non-current assets/liabilities. Deutsche Wohnen tested the effectiveness of the concluded interest hedges on a prospective (critical terms method) and a retrospective basis. In the case of derivative financial instruments which do not meet the criteria for hedge accounting, gains or losses from changes in fair value are immediately recognised in the profit or loss statement.

Deutsche Wohnen only hedges cash flows which relate to future interest expenses.

D Notes to the consolidated balance sheet

1 Investment properties

Investment properties are recognised at fair value. Fair value developed as follows during the financial year:

in EUR m	31/12/2013	31/12/2012
Start of period	4,614.6	2,928.8
Acquisitions	902.4	1,633.2
Other additions	26.3	32.9
Additions by way of company acquisitions	3,436.5	0.0
Disposals	–86.5	–75.1
Fair value adjustment	101.3	119.2
Transfer	–57.5	–24.4
End of period	**8,937.1**	**4,614.6**

The transfer includes the property reclassified as non-current assets for disposal in the current financial year.

The valuation (Level 3 of the Fair Value Hierarchy – valuation on the basis of valuation models) as at 31 December 2013 and as at 31 December 2012 was completed according to the following principles, which were developed in the context of the internal periodic valuation:

Valuation on the basis of defined clusters:
- Derivation of annual rent increases and target vacancies based on the location and physical characteristics of the properties
- Derivation of capitalisation rates and discount rates

Derivation of the valuation based on individual properties:
- Determination of the market rent as at the reporting date
- Development of rent per sqm of lettable area based on market rent and in-place rent
- Development of costs (maintenance, administration, rental loss, non-recoverable operating costs and ground rent (if applicable))
- Determination of cash flows from annual proceeds and payments and the terminal value at the end of year ten, based on the recurring cash flow expected in year eleven or an expected average sales price less sales expenses
- Calculation of a fair value based on the administrative unit as at the reporting date

The capitalisation rate and the discount rate were derived from the property-specific risk assessments.

A review of the valuation by an independent third party takes place on every balance sheet date. The applied valuation methods used for the internal valuation and for the valuation by a third party, are therefore the same.

The following overview summarises the valuation parameters applied with respect to the individual clusters, and indicates all of the sub-clusters within the main Core+, Core and Non-core clusters that have an overall share of the total property value of at least 10%. Sub-clusters which do not reach this threshold are reported on a consolidated basis. The stated figures are based on the weighted average of the respective cluster:

	Core+			Core	Non-core
31 December 2013	Berlin	Other	Total	Total	Total
Carrying amount (EUR m)	6,266.3	1,131.8	7,398.1	1,413.7	125.3
Carrying amount (EUR/sqm)	969	1,188	997	784	576
Share of carrying amount (%)	70.1	12.7	82.8	15.8	1.4
In-place rent (EUR/sqm)	5.53	6.52	5.65	5.20	4.82
Rent increases p.a. (%)	2.0	1.7	1.9	1.1	0.7
Vacancy rate (%)	1.9	2.7	2.0	3.6	4.9
Multiplier	14.4	15.3	14.6	12.9	11.1
Discount factor (%)	6.6	6.6	6.6	6.8	7.7
Capitalisation factor (%)	5.5	5.5	5.5	5.8	6.5

	Core+			Core	Non-core
31 December 2012	Berlin	Other	Total	Total	Total
Carrying amount (EUR m)	2,082.1	1,012.5	3,094.6	1,320.9	199.0
Carrying amount (EUR/sqm)	1,057	1,158	1,088	785	540
Share of carrying amount (%)	45.1	21.9	67.1	28.6	4.3
In-place rent (EUR/sqm)	5.64	6.42	5.87	5.22	4.76
Rent increases p.a. (%)	2.1	1.7	2.0	1.0	0.7
Vacancy rate (%)	1.4	2.8	1.9	3.7	5.0
Multiplier	15.4	15.3	15.4	12.7	10.5
Discount factor (%)	6.7	6.6	6.7	6.9	7.8
Capitalisation factor (%)	5.6	5.5	5.5	5.9	6.8

An adjustment of the key valuation parameters (rent increase 20% lower than projected; increase in the discount rate of 0.1%; increase in the capitalisation rate of 0.1%) results in the following non-cumulated fair value adjustments on the basis of the carrying amount of the properties:

	Core+			Core	Non-core
31 December 2013	Berlin	Other	Total	Total	Total
Rent increases	–3.61	–3.62	–3.62	–2.39	–1.46
Discount factor	–0.75	–0.72	–0.74	–0.72	–0.73
Capitalisation factor	–1.07	–1.09	–1.07	–0.94	–0.73

	Core+			Core	Non-core
31 December 2012	Berlin	Other	Total	Total	Total
Rent increases	–3.37	–1.63	–2.80	–1.35	0.00
Discount factor	–0.79	–0.81	–0.80	–0.72	0.00
Capitalisation factor	–1.09	–1.22	–1.13	–0.90	–0.58

The investment properties serve as collateral for the loans. There are also agreements in individual cases according to which the condition of the properties may not deteriorate or the average minimum investments have been determined on a sqm-basis.

All of the Group's investment properties are leased under operating leases. The rental income generated from this amounted to EUR 372.9 million (previous year: EUR 240.1 million.) The expenses directly associated with the investment properties amounted to EUR 80.6 million (previous year: EUR 45.6 million).

Deutsche Wohnen is partly subject to restrictions with regard to rental increases related to certain preferential tenants and in relation to grants in the form of subsidised-interest loans or investment subsidies. Additionally, we must comply with legal obligations when privatising residential units.

2 Property, plant and equipment

Land and buildings, technical facilities and plant and equipment classified under IAS 16 are reported in this item. They developed as follows during the financial year:

in EUR m	31/12/2013	31/12/2012
Cost		
Start of period	30.3	27.2
Additions	6.6	3.8
Additions by way of company acquisitions	3.0	0.0
Disposals	–0.4	–0.7
End of period	**39.5**	**30.3**
Cumulative depreciation and impairment		
Start of period	10.0	8.5
Additions	2.7	1.9
Disposals	0.0	–0.5
End of period	**12.7**	**10.0**
Net carrying amounts	**26.8**	**20.3**

The land and buildings included in property, plant and equipment (EUR 13.1 million, previous year: EUR 12.2 million) are mainly property-secured.

3 Intangible assets

Intangible assets developed as follows:

in EUR m	31/12/2013	31/12/2012
Cost		
Start of period	9.1	7.3
Additions	0.7	2.0
Additions by way of company acquisitions	502.5	0.0
Thereof goodwill	491.6	0.0
Disposals	0.0	–0.2
End of period	**512.3**	**9.1**
Cumulative depreciation and impairment		
Start of period	5.8	4.8
Additions	2.8	1.2
Disposals	0.0	–0.2
End of period	**8.6**	**5.8**
Net carrying amounts	**503.7**	**3.3**
Thereof goodwill	491.6	0.0

The additions by way of company acquisitions largely comprise the goodwill attributable to the GSW acquisition in the amount of EUR 491.6 million (previous year: EUR 0 million).

Other intangible assets primarily include an acquired customer base and software licences.

4 Land and buildings held for sale

The increase in the land and buildings held for sale is largely due to the acquisition in 2013 of residential units (EUR 78.8 million, previous year: EUR 0.0 million) for disposal purposes. The disposals have had a counteractive effect. In the financial year 2013, proceeds of EUR 36.4 million (previous year: EUR 32.9 million) were generated. The proceeds were partly offset by carrying amounts of assets sold of EUR 25.4 million (previous year: EUR 23.7 million).

5 Trade receivables

Receivables are made up as follows:

in EUR m	31/12/2013	31/12/2012
Receivables from rental activities	21.8	7.9
Receivables from the disposal of land	5.8	11.6
Other trade receivables	2.2	1.3
	29.8	20.8

Receivables from rental activities are interest-free and are in principle overdue. Impairments are made based on the age structure and/or depending on whether the tenants are active or former tenants. There have been write-downs of almost all overdue receivables.

In the financial year 2013, rental claims totalling EUR 3.4 million (previous year: EUR 2.3 million) were depreciated and amortised or impaired. The impairment of receivables as at 31 December 2013 amounted to EUR 25.8 million (previous year: EUR 15.1 million).

Receivables from the disposal of land are interest-free and are in principle due for payment between 1 and 90 days.

The receivables from the disposal of land are fully recoverable and only overdue to a very minor extent.

Other receivables are interest-free and are in principle due for payment between 1 and 90 days.

6 Derivative financial instruments

Deutsche Wohnen concluded several interest hedging transactions in a nominal amount of EUR 3.0 billion (previous year: EUR 1.8 billion), of which EUR 1.2 billion resulted from the takeover of GSW. The cash flows from the underlying transactions, which are secured in the scope of the cash flow hedge accounting, will be realised in the years from 2014 to 2023. The strike rates are between 0.60 % and 4.95 %. The accumulated fair value of these transactions as at 31 December 2013 amounted to EUR 156.5 million (previous year: EUR 152.5 million).

There are no significant default risks as the interest rate swaps were concluded with major banks. If the interest rate level changes, the fair value changes accordingly. Income and expenses are recognised in equity for the effective part of a hedge, while the non-effective part is recognised within current earnings. If the interest rate level should rise/fall by 50 base points, the attributable fair value of the interest rate swap will rise/fall by approximately EUR 60 million (previous year: EUR 41.6 million).

7 Cash and cash equivalents

The cash and cash equivalents in the amount of EUR 196.4 million (previous year: EUR 90.6 million) mainly consist of cash at bank and cash on hand. Bank balances earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rate. As at the reporting date, the Deutsche Wohnen Group had cash and cash equivalents amounting to EUR 39.0 million (previous year: EUR 16.1 million) which was restricted in use. This primarily relates to the purchase collection accounts for special repayments from disposals.

8 Equity

Please refer to the consolidated statement of changes in equity for the development of equity.

Issued share capital
The issued capital of Deutsche Wohnen AG as at 31 December 2013 amounted to about EUR 286.22 million, divided into about 286.22 million no-par value shares with a notional share in the issued capital of EUR 1.00 per share. As at 31 December 2013, approximately 99.97 % of the company's shares were bearer shares; the remaining approximately 0.03 % were registered shares.

Of the bearer shares 117,309,588 (ISIN: DE000A1X3R56) are entitled to dividend rights for the financial years starting 1 January 2014 only. Aside frome this all shares carry the same rights and obligations. Each share entitles the holder to one vote at the Annual General Meeting and determines the basis for the division of company profit amongst shareholders. The rights and obligations of the shareholders are outlined in detail in the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a ff., 118 ff. and 186. There are no shares with special rights conferring powers of control.

The Management Board of Deutsche Wohnen AG is not aware of any restrictions with regard to the voting rights or the transfer of shares.

In the event of capital increases the new shares are issued as bearer shares.

By resolution of the Annual General Meeting held on 28 May 2013, which was entered into the commercial register on 9 July 2013, the Management Board has been authorised to increase the company's registered capital, with the consent of the Supervisory Board, by up to around EUR 80.38 million once or several times during the period until 27 May 2018 by means of the issuance of up to around 80.38 million new ordinary bearer shares against cash contributions and/or contributions in kind (authorised capital 2013/I). The shareholders must in principle be granted subscription rights within the scope of the authorised capital. However, according to the detailed provisions of the articles of association, the Management Board is authorised in certain cases to exclude the subscription rights of shareholders with the approval of the Supervisory Board. The remainder of the 2012/II authorised capital was cancelled at the same time as the 2013/I authorised capital was recorded.

The registered capital can be contingently increased by up to approximately EUR 40.19 million by means of the issue of up to approximately EUR 40.19 million no-par value bearer shares with dividend rights generally from the start of the financial year of their issuance (contingent capital 2013/I).

The contingent capital increase serves the issuance of shares to the owners or creditors of bonds with warrants or convertible bonds and of profit participation rights with option or conversion rights that are issued before 27 May 2018 by the company, or companies which are controlled or majority owned by the company, in accordance with the authorisation of the Annual General Meeting of 28 May 2013. It will only be exercised insofar as option or conversion rights arising out of the aforementioned options or convertible bonds or profit participation rights are exercised, or insofar as conversion obligations arising out of such bonds are fulfilled, and provided that own shares, shares issued out of authorised capital or other benefits are not used to service the obligations.

A resolution passed at the Annual General Meeting of 28 May 2013 authorised the Management Board to issue no-par value bearer convertible and/or option bonds and/or profit participation rights with option and conversion rights (or a combination of these instruments) in the nominal value of up to EUR 850 million and to grant its creditors conversion or option rights for shares in Deutsche Wohnen AG with a pro rata amount of the issued capital of up to EUR 40.19 million. On the basis of this authorisation Deutsche Wohnen AG issued a convertible bond on 22 November 2013 with a total nominal value of EUR 250 million. The holders of this bond have the right to convert it into as many as approximately 16.08 million Deutsche Wohnen AG shares. Accordingly, the 2013 contingent capital remains at around EUR 24.11 million following the issuance.

The company shares are either registered or bearer shares. If the shares are issued as registered shares, the registered shareholders are entitled to request — in writing or in text form (section 126b of the German Civil Code [BGB]) — from the Management Board that the registered shares for which they are listed in the company's share register be converted into bearer shares. A conversion of the shares requires the consent of the Management Board.

Capital reserve

EUR 69.9 million (previous year: EUR 42.6 million) was taken from the capital reserve in 2013.

In 2013, the capital reserve increased by EUR 1,818 million (previous year: EUR 417.3 million) due to premium payments related to the capital increase. The costs incurred due to the capital increase in the amount of EUR 7.9 million (previous year: EUR 17.2 million) and the income tax effects related to these costs in the amount of EUR 2.5 million (previous year: EUR 5.6 million) were offset against the premium payments.

Retained earnings

Retained earnings comprise the revenue reserve of Deutsche Wohnen and the accumulated profit/loss carried forward.

The statutory reserve is mandatory for German publicly listed companies. In accordance with section 150 (2) of the German Stock Corporation Act (AktG), an amount equivalent to 5% of the profit for the financial year is to be retained. The statutory reserve has a cap of 10% of the issued capital. In accordance with section 272 (2) nos. 1–3 of the German Commercial Code (HGB), any existing capital reserve is to be taken into account and the provisions required for the statutory reserve are reduced accordingly. This is measured on the basis of the issued share capital which exists and is legally effective at the reporting date and which is to be reported in this amount on the respective annual balance sheet. The statutory reserve remains unchanged at EUR 1.0 million.

Non-controlling interests

The increase in non-controlling interests was largely due to the acquisition of the GSW Group.

9 Financial liabilities

The company has taken on bank loans particularly to finance property and company transactions and property acquisitions.

The borrowings are hedged at approximately 88 % (previous year: approximately 86 %) at a fixed rate and/or through interest rate swaps. The average rate of interest was approximately 3.5 % (previous year: approximately 3.7 %).

The loan renewal structure based on current outstanding liability is as follows:

in EUR m	Carrying amount 31/12/2013	Nominal value 31/12/2013	2013	2014	2015	2016	2017	greater than/ equal 2018
Loan renewal structure 2013	5,154.6	5,253.9	0	110.4	367.9	502.6	851.8	3,421.2
Loan renewal structure 2012	2,768.6	2,872.8	66.1	59.9	282.3	266.6	486.6	1,711.3

The liabilities are almost entirely secured by property as collateral.

10 Convertible bond

In November 2013, Deutsche Wohnen AG issued convertible bonds with a term expiring in November 2020 and a total nominal value of EUR 250 million. These are divided into 2,500 partial bonds with a nominal value of EUR 100,000. The convertible bonds may initially be converted into approximately 13.3 million new or existing no-par value bearer shares of Deutsche Wohnen AG.

The convertible bonds issued by Deutsche Wohnen AG bear a coupon for interest of 0.5 % p.a., which is due for payment on a half-yearly basis. The initial conversion price is EUR 18.7538.

The convertible bonds are reported on the balance sheet at fair value on the basis of their market price plus accrued interest in the total amount of EUR 247.9 million. The costs in the amount of EUR 3.8 million incurred in connection with the issuance of the convertible bonds have been recognised in the consolidated profit and loss statement.

The convertible bond with an original total nominal value of EUR 182.9 million issued by GSW Immobilien AG was nominally valued at EUR 1.9 million as at the reporting date. It bears a coupon for interest of 2.0 % p.a. falling due on an annual basis on 20 November. It is valued on the basis of a market value of EUR 2.2 million.

11 Employee benefit liabilities

The company's pension scheme consists of defined benefit and defined contribution plans. The average term of the obligations is approximately 13.5 years; payments from pension benefit plans for 2014 are expected in the value of EUR 3.5 million (less payments on plan assets).

Employee benefit liabilities are determined using the projected unit credit method in accordance with IAS 19. Future obligations are measured using actuarial methods that conservatively estimate the relevant parameters.

The level of pension obligations (defined benefit obligation of the pension commitments) was calculated in accordance with actuarial methods on the basis of an external expert report and the following factors:

in %	31/12/2013	31/12/2012
Discount rate	3.50	3.50
Future salary increases	2.50	2.50
Future pension increases	1.75	1.75
Increase in the contribution assessment ceiling	2.25	2.25
Mortality tables	R 05G	R 05G

The trend in salaries includes expected future salary increases that are estimated annually, depending, among other things, on the inflation rate and length of service in the company.

The employee benefit liabilities taken over in the scope of the BauBeCon acquisition are financed through the ufba – Unterstützungskasse zur Förderung der betrieblichen Altersversorgung e.V. (Assistance Fund for the Promotion of Company Pension Plans inc. soc.) and recognised on the balance sheet as plan assets. The valuation applied an interest charge in the amount of 3.5 %.

The following summary shows the financing status of the Group's pension plans, which is at the same time equivalent to the balance sheet posting:

in EUR m	31/12/2013	31/12/2012
Present value of employee benefit liabilities	63.3	62.5
Less attributable fair value of the plan assets	–8.0	–8.0
	55.3	54.5

The following table shows the development of the present value of performance oriented liabilities and the attributed fair value of the plan assets:

in EUR m	31/12/2013	31/12/2012
Opening balance employee benefit liabilities	62.5	42.7
Pension payments	–3.5	–3.1
Change in the basis of consolidation	2.2	13.4
Interest cost	2.1	2.2
Service cost	0.3	0.3
Adjustments to the pension fund	0.2	0.1
Actuarial gains/losses	–0.5	7.0
Closing balance employee benefit liabilities	**63.3**	**62.5**
Thereof pension plans with financing from plan assets	9.1	9.1
Thereof pension plans without financing from plan assets	54.2	53.4
Opening balance plan assets	8.0	0.0
Change in the basis of consolidation	0.0	8.9
Interest income from plan assets	0.3	0.1
Contributions to plan assets	0.4	0.2
Pension payments from plan assets	–0.8	–0.3
Actuarial losses	0.0	–0.9
Closing balance plan assets	**8.0**	**8.0**

The pension expenses are made up as follows:

in EUR m	31/12/2013	31/12/2012
Interest cost	–1.8	–2.1
Service cost	–0.3	–0.3
Adjustments to the pension fund	–0.2	–0.1
	–2.3	–2.5

Pension commitments include old-age, disability, surviving spouse and surviving dependant pensions. They are based on the last fixed annual gross salary. Different benefit plans apply depending on the employee's position in the company.

The pro rata interest expenses are recognised as "interest expenses" in the profit and loss statement, whilst current pension payments, service expenses and adjustments to current pensions are recognised as "staff expenses".

Expenses for defined contribution plans in the total amount of EUR 4.8 million (previous year: EUR 3.7 million) were incurred. Therefore, total expenses for pension plans (defined benefit and defined contribution) amounted to EUR 5.2 million (previous year: EUR 4.1 million.) For 2014, based on the current number of employees, the expenses will total approximately EUR 6.6 million.

An increase in the interest rate of 0.25 % would result in a decrease in employee benefit liabilities of 3.0 %, and a rise in future salary increases of 0.5 % would result in an increase in employee benefit liabilities of 0.2 %.

The sensitivity calculations are based on the average term of the pension liabilities determined as at 31 December 2013. They were carried out for each of the actuarial parameters classified as significant with a view to demonstrating the effect of the present value of the employee benefit liabilities calculated as at 31 December 2013 on a separate basis. Given that the sensitivity analyses are based on the average term of the expected pension liabilities and consequently do not take account of the expected payment dates, they provide only approximate information or indications of future trends.

We do not currently consider any further changes to the relevant actuarial parameters to be likely.

12 Liabilities to limited partners in funds

On the basis of individual agreements, Rhein-Pfalz Wohnen GmbH has granted the limited partners of DB 14 a put option relating to their limited partnership interests from 2005 to 2019. Under these agreements, the Group is obliged to acquire the interests initially (in 2005) at 105% of the paid-in capital upon request. From 2005, the agreed purchase price for the interests increases by five percentage points per annum. Outstanding dividend payments are taken into account for limited partnership interests that are offered to us.

Liabilities developed as follows during the financial year:

in EUR m	31/12/2013	31/12/2012
Opening balance liabilities	5.1	7.3
Payment for tender	–1.3	–1.4
Reversal	0.0	–1.0
Accrued interest	0.2	0.2
Closing balance liabilities	**4.0**	**5.1**

The liabilities to limited partners in funds as at 31 December 2013 in the full amount (previous year: EUR 5.1 million) were reported as short-term, because the payments for the remaining tenders are expected in 2014.

13 Other provisions

The other provisions are made up as follows:

in EUR m	Revitalisation	Other	Total
Start of period	6.7	7.6	14.3
Changes in the basis of consolidation	0.0	7.7	7.7
Utilisation	–1.3	–2.8	–4.1
Reversal	–0.2	–2.9	–3.1
Additions	0.0	1.4	1.4
End of period	**5.2**	**11.0**	**16.2**
Thereof non-current	5.2	1.2	6.4
Thereof current	0.0	9.8	9.8

The provision for revitalisation (EUR 5.2 million, previous year: EUR 6.7 million) relates to the privatisation agreement between the federal state of Berlin and GEHAG. In accordance with this agreement, GEHAG is committed to invest an original total of EUR 25,565 k in the improvement of housing conditions. There are no regulations in the agreement regarding the time period. As in the previous year, the calculation assumes a period until 2017 and an interest rate of around 4%. The additions are related to the interest accrued for the provision.

14 Tax liabilities

Current and non-currrent tax liabilities (EUR 62.6 million, previous year: EUR 63.6 million) essentially include the present value from the payment of the EK-02-holdings (EUR 38.1 million, previous year: EUR 46.6 million) in the Deutsche Wohnen Group. In accordance with the German Annual Taxation Act 2008 (JStG), the previous regulation regarding the treatment of EK-02-holdings was abolished and replaced by a flat-rate payment that is mandatory. In accordance with this, the closing balance of EK-02-holdings as at 31 December 2006 is taxed at a flat rate of 3%, regardless of how they are utilised. It is not applicable to the remaining holdings and triggers no further increases in German corporation income tax. The resulting tax amount is to be paid either within a period of ten years from 2008 to 2017 in ten equal annual instalments or at the present value in a lump-sum payment. The entire EK-02-holdings of the Deutsche Wohnen Group excluding GSW amount to EUR 3.5 billion (previous year: EUR 3.5 billion). It was assumed in the valuation that the payment is made in ten annual instalments (EUR 10.4 million, previous year: EUR 10.4 million) and not as a lump-sum, present value payment. The EK-02-holdings of the GSW Group originally amounted to EUR 1.8 billion and were reduced to zero in 2011 by means of a payment in the amount of their present value, EUR 41.7 million, with the result that no additional payments will arise in this context.

15 Deferred taxes

The deferred taxes are made up as follows:

in EUR m	31/12/2013	Change	31/12/2012
Deferred tax assets			
Properties	8.3	3.4	4.9
Pensions	5.5	–0.5	6.0
Loss carry-forwards	212.1	193.0	19.1
Interest rate swaps	43.2	–4.2	47.4
Loans	0.2	0.2	0.0
Other	11.1	7.8	3.3
	280.5	**199.8**	**80.7**
Deferred tax liabilities			
Loans	21.6	0.0	21.6
Properties	310.5	–191.9	118.6
Other	21.0	–17.9	3.1
	353.1	**–209.8**	**143.3**
Deferred taxes (net)	**–72.6**	**–10.0**	**–62.6**
Thereof			
Recognised directly in equity	–16.8		20.2
Company acquisition	–1.8		0.0
Recognised in profit/loss	8.6		–49.6
	–10.0		**–29.4**

The actuarial gains and losses from pensions and the changes in the current market value of the effective hedges are recognised directly in equity not affecting net income. The resulting deferred taxes were likewise recognised without effects on the result and amount to EUR –0.2 million (previous year: EUR 2.4 million) for actuarial profits and losses, and EUR –16.6 million (previous year: EUR 17.8 million) for the changes in the fair value of the effective hedging transactions. Further recognised effects amount to EUR 2.5 million (previous year: EUR 5.6 million).

For corporation taxes, the Deutsche Wohnen Group carries forward losses in the amount of EUR 1.7 billion (previous year: EUR 1.1 billion) and losses carried forward for trade taxes in the amount of EUR 1.5 billion (previous year: EUR 0.9 billion). Corporation tax loss carry-forwards that were not capitalised amount to approximately EUR 0.8 billion (previous year: EUR 1.0 billion), trade tax loss carry-forwards to approximately EUR 0.7 billion (previous year: EUR 0.9 billion). In general, loss carry-forwards do not expire.

16 Leases

The tenancy agreements which Deutsche Wohnen has concluded with its tenants are classified as operating leases in accordance with IFRS. Accordingly, the Group acts as lessor in a diverse range of operating lease agreements (tenancies) for investment properties from which it obtains the largest part of its income and revenues.

From existing operating lease agreements with third parties (assumed statutory cancellation period: three months) from the current property portfolio, Deutsche Wohnen will receive minimum lease payments in the amount of approximately EUR 154 million in 2014 (previous year: EUR 84 million). In the context of Assisted Living and Nursing Services, Deutsche Wohnen will receive additional minimum lease payments in 2014 in the amount of approximately EUR 63 million (previous year: EUR 52 million), in one to five years approximately EUR 252 million (previous year: EUR 208 million), and in more than five years approximately EUR 315 million (previous year: EUR 260 million). This is based on an assumption of a remaining lease of five years after the fifth year. The tenancy agreements are for an indefinite period and end upon the death of the tenant or upon termination by the landlord in the event of a default of payment.

E Notes to the consolidated profit and loss statement

The consolidated profit and loss statement is prepared using the total cost method.

1 Income from Residential Property Management

The income from Residential Property Management is made up as follows:

in EUR m	2013	2012
Potential gross rental income	384.3	245.1
Subsidies	2.4	2.7
	386.7	**247.8**
Vacancy loss	–13.8	–7.8
	372.9	**240.0**

2 Expenses from Residential Property Management

The expenses from Residential Property Management are made up as follows:

in EUR m	2013	2012
Maintenance costs	59.4	34.7
Non-recoverable expenses	9.6	4.1
Rental loss	4.9	3.0
Other expenses	6.7	3.8
	80.6	**45.6**

3 Earnings from Disposals

The earnings from Disposals include sales proceeds, costs of sale and carrying amounts of assets sold of investment properties and land and buildings held for sale.

4 Earnings from Nursing and Assisted Living

The earnings from Nursing and Assisted Living are made up as follows:

in EUR m	2013	2012
Income for Nursing and Assisted Living	59.9	42.0
Nursing and corporate costs	–16.4	–11.3
Staff expenses	–30.3	–20.8
	13.2	**9.9**

5 Corporate expenses

The corporate expenses are made up as follows:

in EUR m	2013	2012
Staff expenses	**31.8**	**23.6**
General and administration expenses		
IT costs	4.5	3.1
Building costs	2.4	1.7
Legal, consultancy and audit costs	3.8	2.6
Communication costs	1.7	1.1
Printing and telecommunication costs	1.6	1.2
Travel expenses	0.9	0.7
Insurance	0.4	0.3
Other	2.4	2.0
	17.7	**12.7**
Property management	**3.4**	**4.1**
	52.9	**40.4**

The Deutsche Wohnen Group employed on average 1,840 employees in the financial year (previous year: 1,268 employees):

	2013	2012
Residential (including holding company)	588	339
Nursing and Assisted Living	1,252	929
	1,840	**1,268**

6 Finance expenses

Finance expenses are made up as follows:

in EUR m	2013	2012
Current interest expenses	122.0	89.6
Accrued interest on liabilities and pensions	11.8	11.4
Financing costs	8.6	7.8
	142.4	108.8

7 Income taxes

Companies resident in Germany that have the legal form of a corporation are subject to German corporation tax in the amount of 15 % (previous year: 15 %) and a solidarity surcharge in the amount of 5.5 % of the corporation tax levied These entities are also subject to trade tax, the amount of which depends on the tax rates set by local authorities. Companies in the legal form of a partnership are only subject to trade tax. The profit less trade tax is assigned to the partners for corporation tax purposes. Limited use of corporation and trade tax loss carry-forwards is to be taken into account from the assessment period 2004 onwards. As a result, a positive tax assessment basis up to EUR 1 million may be reduced by an existing loss carry-forward without limitation; amounts in excess thereof may at most be reduced to 60 % by an existing loss carry-forward.

The anticipated nominal income tax rate for 2013 for the Group's parent company Deutsche Wohnen AG is 31.93 %.

Income tax expense/benefit is made up as follows:

in EUR m	2013	2012
Current tax expense	**– 11.3**	**– 4.9**
Tax expense from capital increase costs	**– 2.5**	**– 5.6**
Deferred tax expense		
Properties	– 52.3	– 49.8
Loss carry-forwards	58.2	– 2.0
Loans and convertible bond	7.7	1.8
Other provisions	– 0.6	0.0
Interest rate swaps	– 4.3	0.1
Pensions	– 0.5	0.3
Other	0.3	0.0
	8.6	**– 49.6**
	– 5.2	**– 60.1**

The reconciliation of tax expense/benefit is provided in the following overview:

in EUR m	2013	2012
Consolidated accounting profit before taxes	217.9	205.6
Applicable tax rate	31.93 %	31.93 %
Resulting tax expense/benefit	**– 69.6**	**– 65.6**
Permanent effect of expenses not deductible for tax purposes and trade tax corrections	– 7.0	1.4
Changes in unrecognised deferred taxes on loss carry-forwards	73.8	3.9
Income tax expenses from other periods	– 1.5	– 0.2
Other effects	– 0.9	0.4
	– 5.2	**– 60.1**

Current income tax expense in the financial year 2013 include expenses relating to other periods in the amount of EUR 1.5 million (previous year: EUR 0.2 million), which are included in other effects.

F Segment reporting

Deutsche Wohnen reports by business segments on the basis of the information provided to the decision makers of the Deutsche Wohnen Group. Segment information is not reported by geographical region as the properties and, therefore, all operational activities are in Germany.

Deutsche Wohnen focuses on the following three main segments in the context of its business activities:

1 Residential Property Management

Deutsche Wohnen's core business activity is the management of residential properties in the context of an active asset management. Asset management includes the modernisation and maintenance of the property portfolio of Deutsche Wohnen, the management of tenancy agreements, support for tenants and the marketing of residential units. The focus of property management is on the optimisation of the rental income. Therefore, rental increase potential is examined continuously in the course of ongoing maintenance, tenant turnover is used as an opportunity to create value, and services are purchased based on best-available prices for real savings and passed on to the tenant.

2 Disposals

The Disposals segment is another pillar of the Deutsche Wohnen Group's operating activities. Privatisation can either take place as individual privatisation, i.e. by selling an individual residential unit (e.g. to a tenant), or it takes place as block sales.

The Disposals segment includes all aspects of the preparation and execution of the sale of apartments from our property portfolio as part of the ongoing portfolio optimisation and streamlining process.

In addition, the privatisation of residential property can take place in connection with the future acquisition of portfolios for the purpose of portfolio streamlining as well as for financing purposes.

Certain residential units, particularly in Rhineland-Palatinate, and individual properties of the GEHAG Group as well as the BauBeCon Group are subject to privatisation restrictions due to the acquisition agreements. Due to these obligations, the Group is partly bound by certain specifications (e.g. sale to tenants, general social conditions) when making privatisation decisions. These restrictions also forbid to some extent the disposal of the properties in question for a specified period of time.

3 Nursing and Assisted Living

The Nursing and Assisted Living segment is operated by KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH (KATHARINENHOF®) and its subsidiaries, and comprises the marketing and management of nursing and residential care homes as well as services for the care of the senior citizens who live in these homes.

Inter-company transactions primarily concern agency agreements which are carried out according to usual market conditions.

The segment reporting is attached to the notes to the consolidated financial statements as Appendix 2.

The reconciliation of the segment assets to the consolidated balance sheet is illustrated in the following table:

in EUR m	31/12/2013	31/12/2012
Segment assets	9,890.0	4,825.8
Deferred taxes	280.5	80.7
Income tax receivables	2.6	1.3
	10,173.1	**4,907.8**

G Notes to the consolidated statement of cash flows

The consolidated statement of cash flows shows how the Group's cash position has changed during the financial year due to the inflow and outflow of funds. In accordance with IAS 7 ("Cash Flow Statements"), a distinction is made between cash flows from operating and from investing and financing activities. Other non-cash operating income and expenses mainly include capital gains from disposals (2013: EUR 33.3 million; previous year: EUR 31.6 million). In total, Deutsche Wohnen received EUR 184.1 million (previous year: EUR 163.5 million) from property disposals. Payments for investments include payments for modernisation and acquisition of investment properties and land and buildings held for sale.

In total, EUR 39.0 million (previous year: EUR 16.1 million) were restricted in use to the Group as at the reporting date. This relates mainly to the liquidity in purchase collection accounts, which may be used only for special repayments on loans. A maturity of up to three months results from the contractual conditions of these cash and cash equivalents.

The Group has funds amounting to EUR 190 million (previous year: EUR 106 million) at its disposal from existing financing commitments that have been utilised in an amount of EUR 50 million as at the reporting date.

Cash flows from investing and financing activities are determined when payments are made. The cash flows from operating activities in contrast is indirectly derived from the Group's profit/loss.

H Earnings per share

In order to calculate the basic earnings per share, the consolidated earnings are divided by the weighted number of shares outstanding in the financial year.

The diluted and undiluted earnings amount to:

in EUR m	2013	2012
Consolidated earnings for the calculation of the undiluted earnings	212.7	145.5
./. Interest from the convertible bond (after taxes)	0.1	0.0
Adjusted earnings for the calculation of the diluted earnings	**212.8**	**145.5**

The average number of issued shares (diluted and undiluted) amounts to:

in shares k	2013	2012
Shares issued at start of period	146,143	102,300
Addition of issued shares in the relevant financial year	140,074	43,843
Shares issued at end of period	286,217	146,143
Average of shares issued, undiluted	**175,273**	**126,148**
Diluting number of shares due to exercise of conversion rights	1,534	0
Average shares issued, diluted	**176,807**	**126,148**

The earnings per share for continuing operations amount to:

in EUR	2013	2012
Earnings per share		
Basic	1.21	1.15
Diluted	1.20	1.15

In the year 2013, a dividend was distributed for the financial year 2012 amounting to EUR 33.8 million or EUR 0.21 per share. A dividend in the amount of EUR 57.4 million or EUR 0.34 for each share entitled to a dividend is planned for 2013.

I Other disclosures

1 Risk management

General information on risk management
The risk management system (RMS) is an instrument for achieving the main aim of the company to sustainably guarantee the profitability of Deutsche Wohnen, which mainly concentrates on the management and development of its own property portfolio. It provides the foundation for active risk control and serves as a basis for information for the Management Board and the Supervisory Board regarding the current risk situation of the company.

Risk management is an ongoing process which is divided into the following phases:

- Establishing standards
- Risk identification and analysis
- Risk management
- Reporting
- Risk controlling

Risks are monitored in a professional and timely manner in accordance with the risk management guidelines established by management. The risk management guidelines establish the roles and responsibilities, set the basic principles of the RMS and define the framework for the evaluation and management of risks. Risk is proactively managed by using risk early warning systems.

The measures relating to financial risk management are described below:

With the exception of derivatives, the main financial instruments used by the Group are bank loans and cash and cash equivalents. The primary purpose of these financial instruments is to finance the Group's business activities. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which result directly from its business activities.

The Group also carries out derivative transactions in the form of interest rate swaps. The purpose of these derivative financial instruments is to manage interest rate risks that result from the Group's business activities and its sources of finance. There has been no trading of interest rate swaps, nor is it planned for the future.

The following table illustrates the classification of the financial instruments into appropriate classes in accordance with IFRS 7.6 together with their allocation to valuation categories in accordance with IAS 39:

in EUR m	Valuation category in accordance with IAS 39	Carrying amount 31/12/2013	Balance sheet measurement in accordance with IAS 39		Fair value 31/12/2013
			Amortised costs	Fair value recognised in profit/loss	
ASSETS					
Trade receivables	(1)	29.8	29.8		29.8
Other assets	(1)	13.7	13.7		13.7
Derivative financial instruments	(2)	2.7		2.7	2.7
Cash and cash equivalents	(1)	196.4	196.4		196.4
EQUITY AND LIABILITIES					
Financial liabilities	(3)	5,154.6	5,154.6		5,154.6
Convertible bond	(4)	250.2		250.2	250.2
Liabilities to limited partners in funds	(4)	4.0		4.0	4.0
Trade payables	(3)	120.6	120.6		120.6
Other liabilities	(3)	53.0	53.0		53.0
Derivative financial instruments	(4)	57.5		57.5	57.5
Derivative financial instruments	(5)	101.8		101.8	101.8
(1) Loans and receivables		239.9			
(2) Financial assets carried at fair value		2.7			
(3) Liabilities carried at amortised cost		5,328.2			
(4) Liabilities assessed at fair value and recognised in profit/loss		311.7			
(5) Liabilities carried at fair value		101.8			

		31/12/2012			31/12/2012
ASSETS					
Trade receivables	(1)	20.8	20.8		20.8
Other assets	(1)	9.1	9.1		9.1
Derivative financial instruments	(2)	0.0		0.0	0.0
Cash and cash equivalents	(1)	90.6	90.6		90.6
EQUITY AND LIABILITIES					
Financial liabilities	(2)	2,768.6	2,768.6		2,768.6
Convertible bond	(4)	0.0		0.0	0.0
Liabilities to limited partners in funds	(3)	5.1		5.1	5.1
Trade payables	(2)	72.0	72.0		72.0
Other liabilities	(2)	24.1	24.1		24.1
Derivative financial instruments	(4)	152.5		152.5	152.5
(1) Loans and receivables		120.5			
(2) Financial assets measured at fair value		0.0			
(3) Liabilities carried at amortised cost		2,864.7			
(4) Liabilities carried at fair value and recognised in profit/loss		5.1			
(5) Liabilities carried at fair value		152.5			

The fair value of financial assets and liabilities for the purposes of valuation or the explanatory notes – with the exception of the convertible bond – was determined on the basis of Level 2 of the Fair Value Hierarchy (recognised valuation methods, using observable market parameters, in particular market interest rates). The fair value of the convertible bonds is determined by means of the market price (Level 1 of the Fair Value Hierarchy).

The following table shows the contractual, undiscounted payments:

in EUR m	Carrying amount 31/12/2013	2014	2015	2016	> 2017
Financial liabilities	5,154.6	254.8	447.5	553.9	3,295.3
Convertible bond	250.2	1.9			250.0
Liabilities to limited partners in funds[1]	4.0	4.2			
Liabilities from taxes	62.6	34.9	10.4	10.4	10.4
Trade payables	120.6	120.6			
Other liabilities	53.0	53.0			
	31/12/2012	2013	2014	2015	> 2016
Financial liabilities	2,768.6	134.4	102.5	311.2	2,324.7
Liabilities to limited partners in funds[1]	5.1	5.1			
Liabilities from taxes	63.6	27.3	10.4	10.4	20.8
Trade payables	72.0	72.0			
Other liabilities	24.1	24.1			

[1] The actual payments depend on the extent to which the limited partners exercise their options to tender their shares, making payment estimates uncertain.

The profits and losses from financial assets and liabilities are as follows:

in EUR m	Interest	Impairment	Fair value	Net loss
2013				
Loans and receivables		3.4		3.4
Liabilities carried at amortised cost	129.1			129.1
Liabilities carried at fair value and recognised in profit/loss	0.3		– 2.2	– 1.9
Derivative financial instruments			– 8.4	– 8.4
	129.4	3.4	– 10.6	122.2
2012				
Loans and receivables		2.3		2.3
Liabilities carried at amortised cost	94.6			94.6
Liabilities carried at fair value and recognised in profit/loss	0.2			0.2
Derivative financial instruments			0.2	0.2
	94.8	2.3	0.2	97.3

The significant risks to the Group arising from financial instruments comprise interest-related cash flow risks, liquidity risks, default risks and market price risks. Company management prepares and reviews risk management guidelines for each of these risks, as outlined below:

Default risk

Default risks, or the risk that a partner will not be able to meet its obligations, are managed by using exposure limits and control processes. If appropriate, the company is provided with collateral. Deutsche Wohnen does not face any considerable default risk, either from partners or from groups of partners with similar characteristics. The maximum default risk is the carrying amount of the financial assets as reported in the balance sheet.

Liquidity risk

The Group reviews the risk of liquidity shortfalls daily by using a liquidity planning tool. This tool takes into account the inflows and outflows of cash from the operating activities and payments relating to financial liabilities.

Deutsche Wohnen seeks to ensure that sufficient liquidity is available to meet future obligations at all times. Deutsche Wohnen currently has a debt capital ratio of approximately 61 % (previous year: 67 %), and a Loan-to-Value Ratio of 57.3 % (previous year: 57.2 %).

Interest-related cash flow risks

The interest rate risk to which the Group is exposed is mainly derived from non-current financial liabilities with floating interest rates.

The Group's interest expenses are managed by a combination of fixed-interest and floating-rate debt capital. To make this combination of fixed-interest and floating-rate debt capital cost-efficient, the Group concludes interest rate swaps at specified intervals by which it exchanges the difference between the fixed-interest and floating-rate amounts as determined on the basis of an agreed nominal value with the contractual partner. These interest rate swaps hedge the underlying debt capital. Accordingly, interest rate risk only exists for floating-rate financial liabilities that are not hedged by interest rate swaps. Applied to these financial liabilities and the convertible bonds, an increase/reduction of 1 % in the interest rate at the reporting date would have led to an increase/reduction in the interest expenses of EUR 6.4 million (previous year: EUR 3.9 million). Applied to the Group equity, an interest adjustment in the same amount would have led to an increase/reduction of approximately EUR 120 million (previous year: EUR 83 million).

Market risks

The financial instruments of Deutsche Wohnen that are not reported at fair value are primarily cash and cash equivalents, trade receivables, other current assets, financial liabilities, trade payables and other liabilities.

The carrying amount of cash and cash equivalents is very close to their fair value due to the short-term nature of these financial instruments. For receivables and liabilities which are based on usual trade credit conditions, the carrying amount based on the historical cost is also very close to the fair value.

Fair value risks can primarily result from fixed-interest loans. A significant proportion of Deutsche Wohnen's liabilities to banks are fixed-interest liabilities and interest hedged, so that the impact from fluctuations in interest rates can be estimated for the medium term.

2 Capital management

The primary aim of the Group's capital management is to ensure that it maintains a high credit rating and a good equity ratio to support its business activities and to maximise shareholder value.

Management of the capital structure takes into account liabilities to banks and other creditors, and cash and cash equivalents.

The key figures for capital management are:

- The equity/debt capital ratio and the leverage ratio

The Group aims to achieve an equity ratio of 30 %. Future investments will therefore be based on balanced financing, amongst other things. The equity ratio amounted to 39 % as at the reporting date (previous year: 33 %).

- Loan-to-Value Ratio

The ratio of financial liabilities compared to the value of investment properties is defined as the Loan-to-Value Ratio.

in EUR m	31/12/2013	31/12/2012
Financial liabilities	5,154.6	2,768.6
Convertible bond	250.2	0,0
	5,404.8	**2,768.6**
Cash and cash equivalents	– 196.4	– 90.6
Net financial liabilities	**5,208.4**	**2,678.0**
Investment properties	8,937.1	4,614.6
Non-current assets held for sale	57.5	24.4
Land and buildings held for sale	97.1	39.1
	9,091.7	**4,678.1**
Loan-to-Value Ratio in %	**57.3**	**57.2**

3 Hedging

As at 31 December 2013 and 31 December 2012, there were various interest hedges, through which variable interest rate conditions can be exchanged for fixed interest rate conditions. The non-effective part of these – whose value change is shown in the consolidated profit and loss statement – amounts to EUR 8.4 million (previous year: expenditure EUR 0.2 million).

4 Events after the reporting date

The Supervisory Board of Deutsche Wohnen AG has unanimously concluded that Mr Andreas Segal, effective 31 January 2014, is to be appointed as CFO as an additional member of the Management Board of the company.

On 7 March 2014 the Management Boards of Deutsche Wohnen AG and of GSW Immobilien AG agreed, with the approval of the respective Supervisory Board, to prepare a domination agreement between Deutsche Wohnen AG, as the controlling entity, and GSW Immobilien AG, as the controlled entity, and to conclude such agreement. An offer will be made to the minority shareholders of GSW Immobilien AG to acquire their shares in exchange for newly issued shares of Deutsche Wohnen AG, and the minority shareholders will be offered a compensation payment for the duration of the agreement. The companies will determine the final structure of the provisions regarding the consideration in shares and the annual compensation payment under the agreement on the basis of a comapny valuation and in accordance with legal requirements.

We are not aware of any other significant events after the reporting date.

5 Commitments and contingencies

Hereditary building rights contracts result in annual financial commitments of EUR 1.9 million (previous year: EUR 1.7 million).

Other financial commitments relating to agency agreements concerning IT services amount to a total of EUR 16.5 million (previous year: EUR 9.9 million).

Other service contracts result in annual financial commitments of EUR 6.6 million (previous year: EUR 3.4 million).

One Group company (Rhein-Pfalz Wohnen GmbH) has been certified as a development and redevelopment agency (sections 158 and 167 of the German Federal Building Code [BauGB]). Rhein-Pfalz Wohnen GmbH performs the duties bestowed upon it by local authorities as their trustee.

As at 31 December 2013, the company had cash at banks at its disposal in a fiduciary capacity in relation to property refurbishment and development measures, which amounted EUR 0.6 million (previous year: EUR 3.2 million). The fiduciary tasks of Rhein-Pfalz Wohnen GmbH were transferred to the development company Rhein-Pfalz GmbH & Co. KG as at 30 June 2001 under the terms of the agency agreement entered into with this company.

6 Lease commitments

Payments for leasing agreements of up to one year amount to EUR 9.0 million (previous year: EUR 2.6 million), for one to five years approx. EUR 13.2 million (previous year: EUR 6.8 million), and for more than five years approx. EUR 5.2 million (previous year: EUR 4.5 million).

7 Auditors' services

The auditor of Deutsche Wohnen AG and the Group is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The following gross expenses for the audit of both the annual report and the consolidated annual report as well as the subsidiaries audited by Ernst & Young were incurred in the year under review:

in EUR k	2013	2012
Audit	793	525
Other certification and valuation services	712	930
Reimbursement of insurance premiums	0	602
Tax advice	376	284
	1,881	2,341

The expenses for other certification and valuation services essentially relate to services rendered in the context of the capital increases in 2013.

Of the above-mentioned expenses for the financial year 2013, approximately EUR 0.6 million were not reported as expenses in the financial year 2013 because they were recognised under assets as additional costs for the acquisition of properties or directly deducted from the capital reserves as costs relating to capital increases, without this having any effect on earnings.

8 Related party disclosures

Companies and persons who have the possibility of controlling or exercising a significant influence on the financial and business policies of the Deutsche Wohnen Group are considered to be related parties. Existing control relationships were taken into account when defining the significant influence that the Deutsche Wohnen Group's related parties have on its financial and business policies.

Related companies
The affiliated companies, jointly controlled entities and affiliated companies included in the consolidated financial statements are to be considered related companies.

Service and cash management agreements exist within the Group. Services between the companies are eliminated on consolidation.

Related parties
The following persons are to be considered related parties:

Name	Memberships in supervisory boards and other executive bodies within the meaning of section 125 (1) sentence 5 of the German Stock Corporation Act (AktG)
Michael Zahn, Chief Executive Officer, Economist	Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Chairman of the Supervisory Board) GEHAG GmbH, Berlin (Chairman of the Supervisory Board) KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin (Chairman of the Supervisory Board) G+D Gesellschaft für Energiemanagement GmbH, Magdeburg (Chairman of the Advisory Board) Funk Schadensmanagement GmbH, Berlin (Member of the Advisory Board)
Lars Wittan, Member of the Management Board, Degree in business administration (Dipl.-Betriebswirt)	KATHARINENHOF® Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin (Deputy Chairman of the Supervisory Board) Eisenbahn-Siedlungs-Gesellschaft Berlin mbH, Berlin (Member of the Supervisory Board)
Andreas Segal, Member of the Management Board since 31/1/2014, Lawyer	None

Members of the Supervisory Board of Deutsche Wohnen AG

The Supervisory Board is composed of the following members:

Name	Occupation	Memberships in supervisory boards and other executive bodies within the meaning of section 125 para 1 sentence 5 of the German Stock Corporation Act (AktG)
Uwe E. Flach, Chairman	Senior Advisor Oaktree GmbH, Frankfurt/Main	DZ Bank AG, Frankfurt/Main (Member of the Advisory Board) Prime Office AG, Cologne (merger of Prime Office REIT AG with OCM German Real Estate Holding AG) (Deputy Chairman of the Supervisory Board) GSW Immobilien AG, Berlin (Member of the Supervisory Board since 3/1/2014, Chairman of the Supervisory Board since 15/1/2014)
Dr. Andreas Kretschmer, Deputy Chairman	Managing Director Ärzteversorgung Westfalen-Lippe Einrichtung der Ärztekammer Westfalen - Lippe - KdöR -, Münster	BIOCEUTICALS Arzneimittel AG, Bad Vilbel (Chairman of the Supervisory Board) GEHAG GmbH, Berlin (Deputy Chairman of the Supervisory Board) GSW Immobilien AG, Berlin (Member of the Supervisory Board since 3/1/2014, Deputy Chairman of the Supervisory Board until 15/1/2014)
Matthias Hünlein	Managing Director Tishman Speyer Properties Deutschland GmbH, Frankfurt/Main	A.A.A. Aktiengesellschaft Allgemeine Anlagenverwaltung, Frankfurt/Main (Member of the Supervisory Board) GSW Immobilien AG, Berlin (Member of the Supervisory Board since 3/1/2014)
Dr. Florian Stetter	Real Estate Agent Erding	CalCon Deutschland AG, Munich (Member of the Supervisory Board) ENOVO s.r.o., Bratislava, Slovak Republic (Managing Partner)
Dr. Michael Leinwand	Chief Investment Officer Zürich Beteiligungs-AG, Frankfurt/Main	Bizerba GmbH & Co. KG, Balingen (Member of the Supervisory Board)
Dr. h.c. Wolfgang Clement	Publicist and Company Consultant Former Federal Minister (Bundesminister a.D.) Former State Prime Minister (Ministerpräsident a.D.)	Daldrup & Söhne AG, Grünwald (Chairman of the Supervisory Board) DIS Deutscher Industrie Service AG, Dusseldorf (Member of the Supervisory Board) Peter Dussmann-Stiftung, Berlin (Member of the Board of Trustees) Dussmann Stiftung & Co. KGaA, Berlin (Chairman of the Supervisory Board) Landau Media Monitoring AG & Co. KG, Berlin (Member of the Supervisory Board) RWE Power AG, Essen (Member of the Supervisory Board)

Transactions with related parties

In 2013 there were no transactions with related parties.

The Management Board Member Lars Wittan purchased four apartments from GEHAG GmbH for a price of EUR 0.3 million in the financial year 2012. This disposal was approved by the Supervisory Board.

9 Remuneration of the Management Board and Supervisory Board

The remuneration for the Management Board is composed as follows:

in EUR k	Michael Zahn Chief Executive Officer since 1/9/2007 2012	2013	Lars Wittan Member of the Management Board since 1/10/2011 2012	2013	Helmut Ullrich Member of the Management Board until 31/12/2012 2012	2013
Fixed remuneration	350	450	200	250	275	0
Supplementary payments	27	27	25	24	19	0
Total fixed	**377**	**477**	**225**	**274**	**294**	**0**
Short-term incentive	400	476	200	238	300	0
short-term arranged	300	309	150	155	240	0
long-term arranged	100	167	50	83	60	0
Long-term incentive	150	150	100	100	125	0
Total variable	**550**	**626**	**300**	**338**	**425**	**0**
Special remuneration	0	900	0	600	0	0
Total sum	**927**	**2,003**	**525**	**1,212**	**719**	**0**

The special remuneration was granted for the successful takeover of GSW Immobilien AG. 50 % of this amount was paid out in 2013. With respect to the second part the Management Board has committed itself to fully invest the net amount in shares of Deutsche Wohnen AG. However, 50 % of this amount is dependent on achieving the synergy potential of annually EUR 25 million.

There is no employee benefit liability for current or retired members of the Management Board or Supervisory Board.

Each member of the Supervisory Board receives a fixed remuneration of EUR 30 k, the Chairman of the Supervisory Board receives double that amount, and the Deputy Chairman of the Supervisory Board receives one and a half times that amount as remuneration. A Supervisory Board member receives lump-sum remuneration in the amount of EUR 5 k per financial year for membership of the Audit Committee, and a member of the General and the Acquisition Committee receives a fee in the amount of EUR 1 k for each attendance at a meeting of the committee in person. Supervisory Board remuneration for the financial year amounted to EUR 240 k net without value added tax. Mr Flach received EUR 65 k net, Dr. Kretschmer EUR 50 k net, Dr. Stetter EUR 35 k net, Mr Hünlein, Mr Clement and Mr Leinwand each received EUR 30 k net.

10 Corporate governance

The Management Board and the Supervisory Board submitted a declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) and have made it permanently available to the shareholders online at www.deutsche-wohnen.com.

Frankfurt/Main, 10 March 2014

Michael Zahn
Chief Executive Officer

Andreas Segal
Member of the Management Board

Lars Wittan
Member of the Management Board

Appendix 1 to the Notes to the consolidated financial statements

Shareholdings[5]

as at 31 December 2013

Company and registered office	Share of capital in %	Equity in EUR k	Profit/loss in EUR k	Reporting date
AGG Auguste-Viktoria-Allee Grundstücks GmbH, Berlin	100.00 [1,2]	25.0	68.9	2013
Algarobo Holding B.V., Baarn, Netherlands	100.00 [1,2]	9,484.5	655.9	2013
Aufbau-Gesellschaft der GEHAG mit beschränkter Haftung, Berlin	100.00 [1,2]	3,438.9	884.7	2013
AVUS Immobilien Treuhand GmbH & Co. KG, Berlin	100.00 [2]	428.6	– 29.4	2012
BauBeCon Assets GmbH, Berlin	100.00 [1,2]	27,676.2	909.3	2013
BauBeCon BIO GmbH, Berlin	100.00 [1,2]	8,626.5	0.0	2013
BauBeCon Immobilien GmbH, Berlin	100.00 [1,2]	336,923.9	15,441.3	2013
BauBeCon Wohnwert GmbH, Berlin	100.00 [1,2]	26,710.2	0.0	2013
DB Immobilienfonds 14 Rhein-Pfalz Wohnen GmbH & Co. KG, Eschborn	89.52 [1,2]	29,355.5	268.9	2012
DCM GmbH & Co. Renditefonds 506 KG, Munich	99.00 [2]	29.0	0.0	2011
DCM GmbH & Co. Renditefonds 507 KG, Munich	99.00 [2]	277.0	0.0	2011
DCM GmbH & Co. Renditefonds 508 KG, Munich	99.00 [2]	83.0	0.0	2011
DCM GmbH & Co. Renditefonds 510 KG, Munich	99.00 [2]	270.0	0.0	2011
Deutsche Wohnen Asset Immobilien GmbH, Frankfurt/Main	100.00 [1,2]	25.0	0.0	2013
Deutsche Wohnen Beteiligungen Immobilien GmbH, Frankfurt/Main	100.00 [1,2]	1,025.0	0.0	2013
Deutsche Wohnen Beteiligungsverwaltungs GmbH & Co. KG, Berlin	100.00 [1,2]	20.0	19.7	2013
Deutsche Wohnen Construction and Facilities GmbH, Berlin (formerly: Deutsche Wohnen Service Braunschweig GmbH, Berlin)	100.00 [1]	99.4	– 169.1	2013
Deutsche Wohnen Corporate Real Estate GmbH, Berlin	100.00 [1,4]	25.0	0.0	2013
Deutsche Wohnen Direkt Immobilien GmbH, Frankfurt/Main	100.00 [1,2]	424,892.1	– 406.2	2013
Deutsche Wohnen Dresden I GmbH, Berlin (formerly: arsago wohnen XIII GmbH, Pöcking)	100.00 [1,2]	3,149.3	212.6	2013
Deutsche Wohnen Dresden II GmbH, Berlin (formerly: arsago wohnen XIV GmbH, Pöcking)	100.00 [1,2]	1,734.5	143.7	2013
Deutsche Wohnen Energy GmbH, Berlin (formerly: Kristensen Energy GmbH, Berlin)	100.00 [1,2]	– 9.9	56.0	2013
Deutsche Wohnen Fondsbeteiligungs GmbH, Berlin	100.00 [1,4]	25.0	0.0	2013
Deutsche Wohnen Immobilien Management GmbH, Berlin (formerly: Deutsche Wohnen Service GmbH, Berlin)	100.00 [1]	432.0	– 214.5	2013
Deutsche Wohnen Management GmbH, Berlin	100.00 [1,4]	25.0	0.0	2013
Deutsche Wohnen Management- und Servicegesellschaft mbH, Frankfurt/Main	100.00 [1,4]	25.6	0.0	2013
Deutsche Wohnen Reisholz GmbH, Berlin	100.00 [1,2,4]	3,318.7	1,241.3	2013
Deutsche Wohnen Service Hannover GmbH, Berlin	100.00 [1,2]	76.3	29.3	2013
Deutsche Wohnen Service Magdeburg GmbH, Berlin	100.00 [1,2]	336.8	23.6	2013
Deutsche Wohnen Service Merseburg GmbH, Merseburg (formerly: Kristensen Service GmbH, Merseburg)	100.00 [1,2]	102.7	– 56.7	2013
Deutsche Wohnen Zweite Fondsbeteiligungs GmbH, Berlin	100.00 [1,4]	25.2	0.0	2013
Dritte V – B – S Verwaltungs-, Besitz- und Servicegesellschaft mbH, Berlin	100.00 [1,2]	883.1	180.3	2013
DWRE Alpha GmbH, Berlin (formerly: Kristensen Real Estate Alpha GmbH, Berlin)	100.00 [1,2]	327.0	52.0	2013
DWRE Braunschweig GmbH, Berlin (formerly: Kristensen Real Estate Braunschweig GmbH, Berlin)	100.00 [1,2]	16,325.2	0.0	2013
DWRE Dresden GmbH, Berlin (formerly: Kristensen Real Estate Dresden GmbH, Berlin)	100.00 [1,2]	– 85.3	231.9	2013
DWRE Erfurt GmbH, Berlin (formerly: Kristensen Real Estate Erfurt GmbH, Berlin)	100.00 [1,2]	880.2	0.0	2013
DWRE Halle GmbH, Berlin (formerly: Kristensen Real Estate Halle GmbH, Berlin)	100.00 [1,2]	25.0	0.0	2013
DWRE Hennigsdorf GmbH, Berlin (formerly: Kristensen Real Estate Hennigsdorf GmbH, Berlin)	100.00 [1,2]	1,085.3	0.0	2013

Company and registered office	Share of capital in %		Equity in EUR k	Profit/loss in EUR k	Reporting date
DWRE Leipzig GmbH, Berlin (formerly: Kristensen Real Estate Leipzig GmbH, Berlin)	100.00	1) 2)	–73.8	201.9	2013
DWRE Merseburg GmbH, Berlin (formerly: Kristensen Real Estate Merseburg GmbH, Berlin)	100.00	1) 2)	1,068.4	0.0	2013
Eisenbahn-Siedlungs-Gesellschaft Berlin mit beschränkter Haftung, Berlin	94.90	1) 2)	11,889.8	0.0	2013
Erste V – B – S Verwaltungs-, Besitz- und Servicegesellschaft mbH, Berlin	100.00	1) 2)	459.8	223.7	2013
Facilita Berlin GmbH, Berlin	100.00	1) 2)	1,220.0	240.0	2013
Fortimo GmbH, Berlin	100.00	1) 2)	6,127.2	0.0	2013
G+D Gesellschaft für Energiemanagement mbH, Magdeburg	49.00	2)	991.2	–8.8	2013
GbR Fernheizung Gropiusstadt, Berlin	45.59	2)	542.6	–109.2	2013
Gehag Acquisition Co. GmbH, Berlin	100.00	1) 2)	429,347.7	468.5	2013
GEHAG Beteiligungs GmbH & Co. KG, Berlin	100.00	1) 2)	21,912.1	405.5	2013
GEHAG Dritte Beteiligungs GmbH, Berlin	100.00	1) 2)	378.8	0.0	2013
GEHAG Erste Beteiligungs GmbH, Berlin	100.00	1) 2)	45.0	0.0	2013
GEHAG Erwerbs GmbH & Co. KG, Berlin	99.99	1) 2)	20,404.7	473.6	2013
GEHAG GmbH, Berlin	100.00	1) 2)	1,023,730.8	47,787.2	2013
GEHAG Vierte Beteiligung SE, Berlin (formerly: GEHAG Vierte Beteiligung SE, Amsterdam, Netherlands)	100.00	1) 2)	17,893.4	138.9	2013
GEHAG Zweite Beteiligungs GmbH, Berlin	100.00	1) 2)	4,485.8	4,360.3	2013
GIM Immobilien Management GmbH, Berlin (formerly: GEHAG Immobilien Management GmbH, Berlin)	100.00	1) 2)	98.5	0.0	2013
GGR Wohnparks Alte Hellersdorfer Straße GmbH, Berlin	100.00	1) 2)	5,451.9	0.0	2013
GGR Wohnparks Kastanienallee GmbH, Berlin	100.00	1) 2)	19,601.9	0.0	2013
GGR Wohnparks Nord Leipziger Tor GmbH, Berlin	100.00	1) 2)	6,680.3	0.0	2013
GGR Wohnparks Süd Leipziger Tor GmbH, Berlin	100.00	1) 2)	3,390.2	0.0	2013
Grundstücksgesellschaft Karower Damm mbH, Berlin	100.00	1) 2)	189.0	0.0	2013
GSW Akquisition 3 GmbH, Berlin	100.00	1) 2)	75,456.0	0.0	2013
GSW Berliner Asset Invest GmbH & Co. KG, Berlin	100.00	2)	6.0	–3.0	2013
GSW Berliner Asset Invest Verwaltungs GmbH, Berlin	100.00	2)	22.0	–2.0	2013
GSW Corona GmbH, Berlin	100.00	1) 2)	–11,517.0	0.0	2013
GSW Fonds Weinmeisterhornweg 170–178 GbR, Berlin	49.95	2)	–7,543.0	27.0	2013
GSW Gesellschaft für Stadterneuerung mbH, Berlin	100.00	1) 2)	290.0	5.0	2013
GSW Grundvermögens- und Vertriebsgesellschaft mbH, Berlin	100.00	1) 2)	90,256.0	0.0	2013
GSW Immobilien AG, Berlin	92.02	1)	1,108,964.3	–8,426.2	2013
GSW Immobilien Beteiligungs GmbH, Berlin	100.00	1) 2)	–412.0	–423.0	2013
GSW Immobilien GmbH & Co. Leonberger Ring KG, Berlin	94.00	1) 2)	491.0	105.0	2013
GSW Pegasus GmbH, Berlin	100.00	1) 2)	–10,849.0	4,813.0	2013
GSW Verwaltungs- und Betriebsgesellschaft mbH & Co. Zweite Beteiligungs KG, Berlin	93.44	1) 2)	–26,036.0	1,445.0	2013
GSW Wohnwert GmbH, Berlin (formerly: Wohnwert-Versicherungs Agentur GmbH, Berlin)	100.00	1) 2)	26.0	0.0	2013
GSZ Gebäudeservice und Sicherheitszentrale GmbH, Berlin	33.30	2)	161.0	79.0	2012
Hamnes Investments B.V., Baarn, Netherlands	100.00	1) 2)	7,157.4	–2,953.4	2013
Haus und Heim Wohnungsbau-GmbH, Berlin	100.00	1) 2)	2,798.7	0.0	2013
HESIONE Vermögensverwaltungsgesellschaft mbH, Frankfurt/Main	100.00	1) 2)	54.7	21.8	2013

1) Fully consolidated
2) Indirect shareholdings
3) Direct and indirect shareholdings
4) Waiver according to section 264 (3) of the German Commercial Code (HGB)
5) Additionally, the company is indirectly involved in a working group.

Company and registered office	Share of capital in %		Equity in EUR k	Profit/loss in EUR k	Reporting date
Holzmindener Straße/Tempelhofer Weg Grundstücks GmbH, Berlin	100.00	1) 2)	25.0	0.0	2013
Intermetro B.V., Baarn, Netherlands	100.00	1) 2)	7,643.1	622.6	2013
KATHARINENHOF Seniorenwohn- und Pflegeanlage Betriebs-GmbH, Berlin	100.00	1) 2)	1,950.0	0.0	2013
KATHARINENHOF Service GmbH, Berlin	100.00	1) 2)	25.0	0.0	2013
Larry Berlin I S.à r.l., Luxembourg	94.80	1) 2)	2,268.6	–194.1	2013
Larry Berlin II S.à r.l., Luxembourg	94.80	1) 2)	5,634.9	–1,187.8	2013
Larry Berlin Lichtenberg S.à r.l., Luxembourg	94.80	1) 2)	7,563.8	–2,067.4	2013
Larry Condo Holdco S.à r.l., Luxembourg	94.80	1) 2)	4,341.0	–2,393.1	2013
Larry Condo S.à r.l., Luxembourg	94.80	1) 2)	8,864.8	2,349.4	2013
Larry I Targetco (Berlin) GmbH, Berlin	100.00	1)	77,048.5	–8.3	2013
Larry II Berlin Hellersdorf S.à r.l., Luxembourg	94.80	1) 2)	6,509.3	–177.3	2013
Larry II Berlin Marzahn S.à r.l., Luxembourg	94.80	1) 2)	11,647.3	48.7	2013
Larry II Greater Berlin S.à r.l., Luxembourg	94.80	1) 2)	5,928.9	178.5	2013
Larry II Potsdam S.à r.l., Luxembourg	94.80	1) 2)	2,967.4	–166.4	2013
Larry II Targetco (Berlin) GmbH, Berlin	100.00	1)	70,869.5	–8.7	2013
LebensWerk GmbH, Berlin	100.00	1) 2)	2,138.6	1,298.5	2013
Main-Taunus Wohnen GmbH & Co. KG, Eschborn	99.99	1) 3)	11,414.3	7,068.2	2013
Marienfelder Allee 212–220 Grundstücksgesellschaft b.R., Berlin	94.00	1) 2)	7,365.4	279.0	2013
Rhein-Main Wohnen GmbH, Frankfurt/Main	100.00	1) 2)	523,189.2	24,055.2	2013
Rhein-Mosel Wohnen GmbH, Mainz	100.00	1) 2)	168,730.2	13,909.7	2013
Rhein-Pfalz Wohnen GmbH, Mainz	100.00	1)	182,074.6	1,057.6	2013
RMW Projekt GmbH, Frankfurt/Main	100.00	1) 2)	16,238.3	0.0	2013
Seniorenresidenz "Am Lunapark" GmbH, Leipzig	100.00	1) 2)	950.2	0.0	2013
SGG Scharnweberstraße Grundstücks GmbH, Berlin	100.00	1) 2)	25.0	0.0	2013
SIWOGE 1992 Siedlungsplanung und Wohnbauten Gesellschaft mbH, Berlin	50.00	2)	4,517.0	176.0	2012
Sophienstraße Aachen Vermögensverwaltungsgesellschaft mbH, Berlin	100.00	1) 2)	2,193.0	0.0	2013
Stadtentwicklungsgesellschaft Buch mbH, Berlin	100.00	1) 2)	2,568.0	365.0	2013
Stadtentwicklungsgesellschaft Eldenaer Straße mbH i.L., Berlin	100.00	2)	255.2	9.1	30/9/2013
Vierte V-B-S Verwaltungs-, Besitz- und Servicegesellschaft mbH, Berlin	100.00	1) 2)	–276.0	111.2	2013
Wohnanlage Leonberger Ring GmbH, Berlin	100.00	1) 2)	–530.0	0.0	2013
Wohn- und Pflegewelt Lahnblick GmbH, Bad Ems	100.00	1) 2)	427.0	–0.8	2013
Zisa Beteiligungs GmbH, Berlin	49.00	2)	9.0	–13.0	2012
Zisa Grundstücksbeteiligung GmbH & Co. KG, Berlin	94.90	1) 2)	74.0	50.0	2013
Zisa Verwaltungs GmbH, Berlin	100.00	2)	25.0	6.0	2013
Zweite GSW Verwaltungs- und Betriebsgesellschaft mbH, Berlin	100.00	1) 2)	26.0	1.0	2013

1) Fully consolidated
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3) Direct and indirect shareholdings
4) Waiver according to section 264 (3) of the German Commercial Code (HGB)
5) Additionally, the company is indirectly involved in a working group.

Appendix 2 to the Notes to the consolidated financial statements

Consolidated segment reporting

for the financial year 2013

	External revenue		Internal revenue		Total revenue	
in EUR m	2013	2012	2013	2012	2013	2012
Segments						
Residential Property Management	372.9	240.1	5.2	2.2	378.1	242.3
Disposals	169.7	167.8	4.0	9.7	173.7	177.5
Nursing and Assisted Living	59.9	42.0	0.0	0.0	59.9	42.0
Reconciliation with consolidated financial statement						
Central functions and other operational activities	1.3	0.3	49.2	31.0	50.5	31.3
Consolidations and other reconciliations	– 1.3	– 0.4	– 58.4	– 42.9	– 59.7	– 43.3
	602.5	**449.8**	**0.0**	**0.0**	**602.5**	**449.8**

	Segment earnings		Assets		Depreciation and amortisation	
in EUR m	2013	2012	31/12/2013	31/12/2012	2013	2012
Segments						
Residential Property Management	292.3	194.4	8,967.3	4,627.1	0.0	0.0
Disposals	23.0	19.9	162.9	77.5	0.0	0.0
Nursing and Assisted Living	13.2	9.9	15.5	4.6	– 1.9	– 0.6
Reconciliation with consolidated financial statement						
Central functions and other operational activities	– 75.6	– 27.7	744.3	116.7	– 3.6	– 2.5
Consolidations and other reconciliations	0.0	0.0	0.0	0.0	0.0	0.0
	252.9	**196.5**	**9,890.0**	**4,825.9**	**– 5.5**	**– 3.1**

Independent auditors' report

We have issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by the Deutsche Wohnen AG, Frankfurt/Main, comprising the balance sheet, the profit and loss statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2013 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ("Handelsgesetzbuch": "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Berlin, 11 March 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Christoph Wehner
Wirtschaftsprüfer
(German public auditor)

Gunnar Glöckner
Wirtschaftsprüfer
(German public auditor)

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements as at 31 December 2013 give a true and fair view of the net assets, financial and earnings position of the Group and the Group's management report gives a true and fair view of the development of the business including the business result and the position of the Group and describes the main opportunities and risks associated with the Group's expected future development."

Frankfurt/Main, 10 March 2014

Michael Zahn Chief Executive Officer	Andreas Segal Member of the Management Board	Lars Wittan Member of the Management Board

Glossary

Cost ratio
Staff expenses and general and administration expenses in relation to the current gross rental income.

Current gross rental income
The current gross rent corresponds to the sum of the contractually agreed net cold rent payments for the areas let of the respective properties for the period under review or as of the reporting date in EUR million. On a per sqm basis, this is called "in-place rent".

D&O (directors and officers) Group insurance
Personal liability insurance that provides general cover to corporate bodies for damages incurred due to neglect of duty.

EBIT
Earnings before interest and taxes.

EBITDA
Earning before interests, taxes, depreciation and amortisation.

EBT
Earnings before Taxes. The company discloses an adjusted EBT as well: EBT (as reported) is adjusted for the result of fair value adjustment of investment properties, the result of fair value adjustments to derivative financial instruments and other one-off effects.

Fair value
Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties which do not depend on each other.

FFO
Funds from Operations: From the company's point of view, an essential operational figure for property companies geared towards liquidity derived from the Group's profit and loss statement. Based on the net result for the period (profit/loss), adjustments for depreciation and amortisation, one-off effects as well as non-cash financial expenses/income and non-cash tax expenses/income, not affecting liquidity, are made. The FFO (incl. disposals) is adjusted for the earnings from disposals to determine the FFO (without disposals).

Financial Covenants
Agreements contained in some financing contracts in which the borrower promises to comply with certain key financial figures specified in the additional agreement for the term of the credit agreement.

In-place rent (per sqm)
Contractually owed net cold rent from the rented units (current gross rental income) divided by the rented area.

LTV ratio
Loan-to-Value Ratio: Quantifies the ratio between the sum of the net financial liabilities and the value of the investment properties plus the non-current assets held for sale and the land and buildings held for sale.

Modernisation measures
Typical modernisation measures are the renovation of the bathrooms, the installation of new in-house supply pipes and windows, the reconditioning or retrofitting of balconies, as well as the implementation of energy saving measures such as the installation of insulating glass windows and thermal insulation measures.

Multiple in-place rent
Net present value divided by the current gross rental income as at December 2013 multiplied by 12.

Multiple market rent
Net present value divided by the market rent as at December 2013 multiplied by 12.

NAV
Net asset value: Indicates the net asset value or intrinsic/ inherent value of a property company. The EPRA NAV is calculated based on equity (before minorities) adjusted for the effect of the exercise of options, convertibles and other equity interests as well as adjustments of the market value of derivative financial instruments and deferred taxes (net of assets and liabilities), i.e. the adjustment of balance sheet items that have no impact on the Group's long-term performance.

For the Adjusted NAV the EPRA NAV is adjusted for the goodwill accrued in the context of the initial consolidation of the GSW Immobilien AG.

Net cold rent
Contractually agreed rent payments; additional expenses (e.g. trash collection, water, janitor) and heating costs are not included.

Net operating income (NOI)
The Net operating income (NOI) represents the operating earnings from Residential Property Management after deduction of incurred personnel and G&A costs in this business segment.

New-letting rent
Deutsche Wohnen determines the new-letting rent by calculating the actual average agreed monthly net cold rent payments per sqm based on the new leases for units not subject to rent controls for the respective properties during the financial year.

Potential gross rental income
The potential gross rental income is the sum of current gross rental income and vacancy loss.

Vacancy loss
The vacancy loss corresponds to the sum of the respective last contractually agreed net cold rent payments for the areas that are not rented but are lettable for the review period or as of the reporting date of the referred properties.

Vacancy rate
The vacancy rate quantifies the ratio between the vacancy loss and the potential gross rental income as of the respective reporting date.

Quarterly overview

for the financial year 2013

Profit and loss statement		Q1	Q2	Q3	Q4	2013
Earnings from Residential Property Management	EUR m	70.9	68.4	68.9	84.1	292.3
Earnings from Disposals	EUR m	5.5	6.8	5.6	5.1	23.0
Earnings from Nursing and Assisted Living	EUR m	3.1	3.4	3.4	3.3	13.2
Corporate expenses	EUR m	– 11.8	– 10.4	– 12.2	– 18.5	– 52.9
EBITDA	EUR m	65.7	67.3	60.4	59.5	252.9
EBT (adjusted)	EUR m	34.3	35.0	30.6	32.0	131.9
EBT (as reported)	EUR m	34.1	35.2	27.4	121.2	217.9
Group profit (after taxes)	EUR m	26.2	24.0	16.3	146.2	212.7
FFO (without disposals)	EUR m	30.9	29.7	25.7	28.2	114.5
FFO (incl. disposals)	EUR m	36.4	36.5	31.3	33.3	137.5

Balance sheet		31/3	30/6	30/9	31/12	31/12
Investment properties	EUR m	4,874.9	5,178.7	5,228.4	8,937.1	8,937.1
Current assets	EUR m	274.5	334.1	284.5	400.6	400.6
Equity	EUR m	1,838.7	1,963.7	1,980.3	3,944.3	3,944.3
Net financial liabilities	EUR m	2,696.6	2,964.1	3,024.5	5,208.4	5,208.4
Loan-to-Value Ratio (LTV)	in %	54.7	55.8	56.3	57.3	57.3
Total assets	EUR m	5,266.5	5,621.2	5,619.7	10,173.1	10,173.1

Net Asset Value (NAV)		31/3	30/6	30/9	31/12	31/12
EPRA Net Asset Value	EUR m	2,052.3	2,159.9	2,178.0	4,004.7	4,004.7

Fair values		31/3	30/6	30/9	31/12	31/12
Fair value of real estate properties[1)]	EUR m	4,770	5,152	5,130	8,881	8,881
Fair value per sqm residential and commercial area[1)]	EUR per sqm	922	914	917	944	944

[1)] Only comprises residential and commercial buildings

Multi-year overview

for the financial years 2011 – 2013

Profit and loss statement		2011	2012	2013
Earnings from Residential Property Management	EUR m	157.4	194.4	292.3
Earnings from Disposals	EUR m	10.6	19.9	23.0
Earnings from Nursing and Assisted Living	EUR m	9.2	9.9	13.2
Corporate expenses	EUR m	– 32.9	– 40.4	– 52.9
EBITDA	EUR m	142.0	196.5	252.9
EBT (adjusted)	EUR m	46.0	78.5	131.9
EBT (as reported)	EUR m	85.8	205.6	217.9
Group profit (after taxes)	EUR m	50.6	145.5	212.7
FFO (without disposals)	EUR m	47.5	68.2	114.5
FFO (incl. disposals)	EUR m	58.1	88.1	137.5

Balance sheet		31/12/2011	31/12/2012	31/12/2013
Investment properties	EUR m	2,928.8	4,614.6	8,937.1
Current assets	EUR m	288.7	188.5	400.6
Equity	EUR m	1,083.4	1,609.7	3,944.3
Net financial liabilities	EUR m	1,666.9	2,678.0	5,208.4
Loan-to-Value Ratio (LTV)	in %	55.0	57.2	57.3
Total assets	EUR m	3,302.2	4,907.9	10,173.1

Net Asset Value (NAV)		31/12/2011	31/12/2012	31/12/2013
EPRA Net Asset Value	EUR m	1,211.3	1,824.4	4,004.7

Fair values		31/12/2011	31/12/2012	31/12/2013
Fair value of real estate properties[1]	EUR m	2,899	4,320	8,881
Fair value per sqm residential and commercial area[1]	EUR per sqm	946	950	944

[1] Only comprises residential and commercial buildings

Financial calendar 2014

28/03/2014	Publication of Consolidated/Annual Financial Statements 2013 – Annual Report 2013
31/03/2014	Roadshow, London
01/04/2014	Commerzbank German Residential Property Forum, London
02/04/2014	Roadshow, Paris
03/04/2014	Roadshow, Brussels
14/05/2014	Publication of Interim Report as at 31 March 2014/1st quarter
20/05/2014	Roadshow, New York
21/05/2014	Roadshow, Boston
22/05/2014	Roadshow, Chicago
04–05/06/2014	Kempen & Co. European Property Seminar, Amsterdam
12–13/06/2014	Deutsche Bank dbAccess German, Swiss & Austrian Conference, Berlin
14/08/2014	Publication of Interim Report as at 30 June 2014/half-year
24/09/2014	EPRA Annual Conference, London
06–08/10/2014	Expo Real, Munich
12/11/2014	Publication of Interim Report as at 30 September 2014/1st–3rd quarter

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